

## MTSDT 2019

### Modern Tools for Sustainable Development of Territories. Special Topic: Project Management in the Regions of Russia

#### EFFECTIVE FUNCTIONING OF INSTITUTIONS AS A BASIS FOR SUSTAINABLE ECONOMIC DEVELOPMENT

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#### *Abstract*

The concept of sustainable development dictates new rules of the game and approaches to the management process. Therefore, it becomes obvious that the methods used in the USSR under the conditions of administrative-command management, have lost their role. Modern management is management based on the objective laws of the development of society and nature, allowing to consider systems of different levels and complexity, as well as the dynamics and quality of their functioning. The economy of any state has its own characteristics, and only the application of its own original approaches and management techniques can ensure the rise of the national economy and the growth of the welfare of the population.

When developing a mechanism for sustainable development, it is necessary to ensure its impact on macroeconomic indicators that would enhance the efficiency of functioning of the entire institutional environment. This approach makes it possible to avoid uncontrolled changes in indicators and prevent the deepening of economic imbalances.

At present, economic theory contains a huge number of diverse concepts, schemes, models, which, on the one hand, is an objective reflection of the process of cognition, and, on the other hand, makes it difficult to systematize and structure separate empirical and theoretical data. This phenomenon, according to some economists, leads science away from generalizing and developing universal laws for managing the development of society and the economy.

We propose to apply a system-institutional approach to the process of modeling the conditions for sustainable development of the economy, considering possible institutional constraints.

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**Keywords:** Analysis, dysfunction, institutions, model, synergetics.



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## 1. Introduction

Analysis of economic transformations in a number of countries, such as, for example: the USA, France, Germany, the United Kingdom, and Japan, gives us the opportunity to identify those general patterns and trends that could be taken into account when reforming the economy in Russia (Knudsen & Moon, 2017). Among them are the following:

First, the basis of economic transformation lay in a detailed program of development.

Secondly, the work to transform the economy and its transition to sustainable development began with reforms in the banking and financial sectors.

Third, mechanisms and conditions were created for attracting accumulated capital, primarily in the real economy.

Fourthly, the legislative and legal base was transformed, making it possible to make business operations to overcome the systemic crisis legitimate.

Fifth, structural changes were carried out and new organizational structures were created.

Sixth, development programs in the countries in question considered the national peculiarities of doing business.

Seventh, in these countries, unlike Russia, the institution of private property has been functioning for many years.

Eighth, economic transformations take place with the direct participation of the state. At the same time, there was no blind copying of institutions successfully operating in other states, the well-known methods and mechanisms of management were not adopted, as was done in Russia.

Russia is transitioning from administrative-command to market-based management mechanisms in the context of an exponentially increasing growth of information and qualitative changes in the development and introduction of new technologies (Ambrosino, Fontana, & Gigante, 2018). These phenomena dictate their requirements, as well as the rules for developing and implementing sustainable development policies.

## 2. Problem Statement

The modern program of sustainable development has not worked out the mechanisms for considering the institutional features of economic systems. In addition, it does not pay due attention to the issue of forecasting and planning the development of institutions in the course of reforms, which, as practice shows, is an indispensable condition (Yi Man Li, Wing Chau, Chi Wing Ho, Lu, Wai Yee Lam, & Ho Leung, 2018). After all, it is obvious that in the process of the evolution of economic relations, a change occurs in the institutions themselves. At the same time, if they do not reflect and do not regulate the new rules of the game and processes, then their dysfunction occurs, i.e. violation of normal, above all, high-quality functioning. Moreover, forecasting and planning in the context of globalization and a high degree of uncertainty of the political and economic situation in the near future are fully compatible with modern ideas about the conditions for the development of a market economy.

When developing a mechanism for sustainable development, including a system of factors determining the effectiveness of the functioning of institutions, it is necessary to ensure its impact on

macroeconomic indicators that would enhance the efficiency of functioning of the entire institutional environment. Such an approach makes it possible to avoid uncontrolled changes in indicators and prevent the deepening of economic disparities (Shmanev, 2012).

The sustainable development models developed to date describe ideal situations in which there are no such important parameters of the system under study as: the volume, reliability and quality of the information used; dependence of economic activity on external and internal factors; financial content of business enterprises, etc. These models represent a system of differential equations that express only the vector of possible directions for the development of the economy, not associating it with such an open system property as instability, nonlinearity, the ability to fluctuate and the presence of such phenomena as an attractor.

The economy is a complex structure and system of interactions; therefore, when deciding, it is necessary to take into account not only an increasing amount of information, but also its quality. In this regard, the management of economic processes acquires a probabilistic basis, since the mechanisms of these processes are hidden from our observation, and we see and manage only by displaying them at a level accessible to us (Shmanev, Shmaneva, & Morkovkin, 2018).

### **3. Research Questions**

To solve the indicated problems, it is necessary to solve the following tasks:

**3.1. Identify the causes of the ineffectiveness of socio-economic reforms in Russia.**

**3.2. To establish the sources of dysfunctions of existing and newly created management institutions.**

**3.3. To propose a new approach to the development of forecast models of sustainable economic development.**

### **4. Purpose of the Study**

To propose a new approach to the development of models reflecting the predictive assessment of the effectiveness of controlling influences in shaping policies for sustainable development of the economy.

### **5. Research Methods**

In the study a system-institutional approach was used.

A system (or institution) created as a response to a need in time periods has a set of functions that it can perform. Consequently, each system (subsystem) has a specific scope and specific functional purpose. The degree and level of its implementation determines the presence or absence of such a phenomenon as dysfunctionality in the system (institute). An example of dysfunctional (system) institutions is corruption, deterioration of the crime situation, crises of different nature, uncontrolled inflation, unemployment. Thus, systemic (macroeconomic) dysfunction is the result of a general decrease in the functional content of the institutional dynamics of the system, when, as a result of the imbalance in the functional effectiveness of the rules and mechanisms for their implementation, it is impossible to

improve the efficiency of the entire system, to ensure the conditions of sustainable development of the national economy, changing one or more rules. This is due to the fact that systemic dysfunction is nothing more than the low point of adaptive efficiency (Sukharev, 2001; Sorokin, 2002).

Thus, adaptive efficiency can be viewed as an indicator that determines the ability of the state, society, business to develop, the ability to solve emerging problems and perceive innovations and overcome risk situations (Landa, 2016). Therefore, to eliminate systemic dysfunction, it is necessary to restore the number of system functions and their qualitative filling, which implies coordination of the entire system of sustainable development policies (Valentinov, Hielscher, & Pies, 2015; Venkateswaran, & Jyotishi, 2017). The effective functioning of the economy, ensuring its sustainable development is possible, provided enough funding for existing or newly created institutions. At the same time, if the activity of institutions acting or newly created is not supported by the necessary money supply for this, there is a decrease in the values of their quality indicators, which immediately affects the decline in the role of these institutional entities for the state economy (enterprise / organization). Therefore, one of the main tasks of the government is to pursue such a policy of sustainable development, which would guarantee the stability and irretrievability of the system in the area of manifestation of dysfunctional changes.

It is important to note that only in aggregate, institutions determine the nature of sustainable economic development, and changes that take place in a single institution over time, although they affect growth rates, are integral and cumulative. The stability of the dynamics of economic development is determined by the change in specific parameters.

## **6. Findings**

It should be noted that a completely new approach to the analysis of economic processes is currently being formed, expanding the horizon of research and ideas about processes and phenomena in the socio-economic sphere, namely, synergistic, based on the idea of economics as a non-equilibrium, non-linear system, having the properties of irreversibility and emergence.

This view has replaced the idea of economics as an equilibrium system, the analysis and forecasting of the dynamics of development of which can be described and predicted based on linear equations. We believe that in order to ensure sustainable economic development of the state, a mechanism is needed which, in regulating the processes occurring in the system, would consider the interaction of the governing and controlled structures.

In the traditional approach to the analysis of economic systems and conditions of sustainable development, economic phenomena are divided into subjective and objective components, which seems to us methodologically unfounded. The proposed approach, based on the concept of stratification of the economic space, considers the objective and subjective components of the system and / or phenomena as indivisible and equivalent. This eliminates the methodological inconsistency.

The task of the management process is to manipulate the possible levers of influence, in which the gradient of uncertainty and instability can either be reduced to zero or reduce the fluctuation of the processes taking place in economic systems to a level of noise incapable of causing dysfunctional changes.

The advantage of our approach is that the observed processes and phenomena are considered in it as processes (phenomena) of one layer of a system, having similar mechanisms of functioning, and hidden from observation processes, as processes occurring in imaginary (hidden from observation) layers and obeying their laws and mechanisms of functioning. But the exchange process between these layers proceeds according to one scenario (mechanism). This makes it possible to apply optimization control models based on the theory of fuzzy sets, which allow to transfer processes hidden in imaginary spaces to levels where they can be observed and exert control actions on them. Then the mechanism will look like this: the found variant of the control action is transmitted in the form of an information circuit to a specific subdivision of the organization, moreover, to the extent necessary to perform the actions of this subdivision, within their functional duties and competence. Conditions limiting the size and content of this information flow are determined by official duties. For this, it is necessary that the management apparatus clearly allocates the space where its actions are carried out. And it must obey the rules that define and determine the processes occurring at the current time, i.e. the field of the phase space of the prevailing economic conditions and its stratification into sublevels, conventionally called imaginary and observable, as well as the processes of information and substance exchange between them.

## 7. Conclusion

Ensuring the sustainable development of the economy comes down to controlling and regulating its state in that area of the economic space that is hidden from observation, i.e. is imaginary (Shmanev, 2012).

Thus, to solve the above-mentioned problem, we propose an approach that allows imaginary spaces to be transferred to the observed region. This will require new information technologies, with the help of which we will be able to simulate real behavioral situations that can launch management processes aimed at creating conditions that ensure the sustainable development of the economy.

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