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## New model of executive governmental structure as a human capital development factor

**Abstract.** This paper highlights that an underlying cause of the downturn in the Russian economy is inadequate acknowledgement of human factor. It provides relevant supporting evidence: the lack of sound local self-government institution, the lack of conducive environment for business development, etc.

It is argued that in order to maintain social stability in the current context an evolutionary approach is preferred to enhance the role and development of human capital. To address this challenge a model of a person-centered structure of executive government has been suggested. It envisages integration of the majority of executive government functions within five specific blocks: economic development, social development, tax (revenue) base development, person development and person protection. In the existing structure many similar functions are allocated to different blocks that impair administration performance.

The paper outlines benefits of the recommended model. It has been stated that it is feasible for all administrative levels, and its implementation involves no risks and basically no costs. In opinions of experts, this model deserves high appreciation and eventually it may become a core pattern in Russia.

**Keywords:** Human Factor; Human Capital; Government Administration; Local Self-government; Territorial Development

**JEL Classification:** A13; H11, J24; R58

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### **Новая модель структуры органов исполнительной власти как фактор развития человеческого капитала**

**Аннотация.** Основная причина кризиса в экономике России - недостаточный учет человеческого фактора, отсутствие полноценного института местного самоуправления, благоприятных условий для развития предпринимательства.

В этом исследовании высказано мнение о том, что в сложившихся условиях в целях сохранения социальной стабильности предпочтителен эволюционный способ повышения роли и развития человеческого капитала. Для решения данной проблемы предложено внедрение «модели лично ориентированной структуры органов исполнительной власти». Предложенная авторами модель пригодна для внедрения на всех административных уровнях, а ее внедрение сопряжено с минимальными рисками и расходами. По мнению экспертов, модель заслуживает высокой оценки и в перспективе может стать базовой в России.

**Ключевые слова:** человеческий фактор; человеческий капитал; государственное управление; местное самоуправление; развитие территорий.

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### **Новая модель структуры органов исполнительной власти как фактор развития человеческого капитала**

**Анотація.** Основна причина кризи в економіці Росії – недостатне врахування людського фактору, відсутність повноцінного інституту місцевого самоврядування, сприятливих умов для розвитку підприємництва.

У цьому дослідженні висловлена думка про те, що в нинішніх умовах з метою збереження соціальної стабільності слід надати перевагу еволюційному способу підвищення ролі й розвитку людського капіталу. Для вирішення зазначеної проблеми запропоновано впровадити «модель особистісно орієнтованої структури органів виконавчої влади». Запропонована авторами модель придатна для запровадження на всіх адміністративних рівнях та спричиняє мінімальні ризики й втрати. На думку експертів, модель заслуговує на високу оцінку й у перспективі може стати базовою в Росії.

**Ключові слова:** людський фактор; людський капітал; державне управління; місцеве самоврядування; розвиток територій.

**1. Introduction.** Russian researchers have elaborated a good deal of recommendations for development and efficient harnessing of human capital, including through improvement of government administration. However, the latter have not been implemented as these require substantial costs, introduction of considerable amendments to the legal and regulatory framework or decentralization of intergovernmental fiscal relations that raises a conflict of interest at different administrative levels. That is why the Russian economy is facing a task to identify low-cost approaches to address this issue that do not affect intergovernmental fiscal relations.

**2. Brief Literature Review.** As for treatment of human capital concept as a socio-economic category there are no large discrepancies in economic literature. Virtually all contemporary researchers regard it basically as a stock of intellectual abilities, professional expertise, practical skills, moral and physical strength of an individual that enable a person to manifest himself in one way or another. Naturally, the matter primarily concerns realization of abilities by an individual when performing official (job) duties.

Initially the concept of human capital was introduced by American economist T. Schultz (1961), who was a representative of Chicago school of political economy (in 1979 – Nobel Prize in Economics).

Later his ideas in this area have been further elaborated in studies of such researchers as G. Becker, E. Denison, J. Kendrick, I. Fisher, etc.

In opinion of T. Schultz, human capital constitutes a creative input. In this context he pointed out the necessity to accumulate it as a productive force, which role in economic development is decisive [1].

G. Becker's studies relating to this issue predominantly focus on human capital assessment. According to his estimations, investment in an individual to increase his educational level generates higher returns compared to securities. The researcher estimated that growth in workers' professional qualification, based on this proposition, enables a firm to gain competitive advantages [2].

Certainly, human capital wealth is shaped by multiple factors. At the same time the system of governmental administration of economy and territories plays a decisive role in creating conditions for its development and efficient use. When tackling this issue Proka N. I. emphasizes that human capital management process is multifold, it embraces many areas, including creation of conditions for its reproduction, cost management, HR policy formulation, etc [3].

Y. I. Koloskova, L. A. Yakimova and Y. N. Shumakov presume that an overarching goal of human capital management is to increase percentage of able-bodied population having professional education and to generate conditions to promote entrepreneurship [4]. According to S. V. Yakimchuk, Russian regions should attach high priority to an individual. In the author's opinion, this will enable us to increase intellectual capacity of the entire nation, to build innovative economy, where a key input is a human being, rather than raw materials [5].

In Russia human capital studies have been initiated quite recently. Nevertheless, over the recent years this topic has become one of the most popular in domestic economics. In addition to the abovementioned researchers this issue has been tackled to some extent by many famous scientists, including V. V. Miloserdov [6], I. G. Ushachev [7], etc. All of them acknowledge the special role of human capital in the system of economic efficiency drivers and articulate measures for its enhancement and comprehensive realization.

**3. Purpose** of the study is to formulate recommendations for human capital development and realization that may be applied in the existing government-administrative system in Russia.

**4. Results.** Investigation of social development mechanisms has revealed that economic performance always adequately reflects government administration quality. If this theoretical proposition is rephrased, it turns out that economic performance is indicative of government administration performance. The very fact that despite numerous transformations the

profound downturn in the Russian economy has been persisting suggests that the potential capacity of the reforms has been negligible, and it is imperative to adjust the government administration system.

One of the main shortcomings of this system is that it fails to be properly oriented towards development and efficient harnessing of human capital – a key competitive differentiator of territories and the state as a whole. The first step to eliminate this shortcoming is to build a sound local self-government institution and to generate conditions to encourage entrepreneurship based on robust competition. Pendency of these problems in Russia serves as convincing evidence that in the society prerequisites for human capital development and realization have not been created.

Unconditionally, the understanding of relevance of these tasks does exist in Russia. These issues constantly appear on the agenda of the country's top leaders; numerous laws, programs, bylaws and other regulations have been enacted. However these documents have failed to ensure real shifts in development of local self-government and in improvement of business climate.

It must be admitted that the issue of underestimation of the individual's role in the economy and personality as such in Russia has arisen neither yesterday nor today. This tradition that has had a pernicious impact on this country has deep historical and social roots, for which reason it is profoundly entrenched in our society. This is evidenced by the fact that administrative reforms implemented in Russia over the past 460 years have led to the establishment of a relatively capable local government institution only once (in 1864). However, soon (in 1890) the local powers were substantially curbed under the pressure of government bureaucracy [8].

Top brains of Russia, including the emperor's inner circle, tried to destroy the tradition of absolute concentration of power that had been impeding nation's potential capacity development and realization. The most prominent attempt was the Decembrist uprising in 1825. However, it ended in failure as many others.

In the Soviet period, starting from 1927, relevant to the Zemstvo Reform of 1864, local government powers were actually formal.

Reforms launched in Russia in the 1990s though declared to foster democratization of socio-economic life and albeit these have been progressing for a quarter of a century already (a huge period in the current, rapidly evolving world) have also failed to establish the sound local government institution, especially in the case of Russian rural areas. In the meanwhile over these years three local self government laws and hundreds of bylaws have been adopted at the federal level alone; and innumerable supplements, amendments, etc have been introduced into the legal and regulatory framework. Millions of people have been involved in their implementation; these have performed enormous volume of activities that actually have generated basically nothing. It turns out that time and efforts allocated to these activities have been wasted, which appears to be one more evidence of inadequate performance of governmental administration of economy and territories in this country.

The lack of favorable business environment in Russia can be inferred from agricultural performance. Experience suggests that in this industry business climate may be considered optimal if at least 85-90% of economic operators are competitive. Currently only 10-12 large-scale farms are competitive. Moreover, although output of some agricultural products has been increasing (meat, oilseeds, etc.), the economic performance of agriculture has been suffering a steady downtrend, as evidenced by growth in accounts payable. In 2013 the indicator reached exorbitant figures – 119.0 million rubles (\$2.3 million) per farm, i.e. the unmanageable amount for a statistical average farm [9].

There are other facts that prove underestimation of the human factor role in the national economic policy. Primarily this is the case of rural areas. In the agriculture and food sector integration processes have been intensifying, but consumer cooperation has been lagging behind; in agriculture development pro-

grams only a negligible part of resources is allocated for introduction of new technologies. The rural social situation tends to deteriorate (in 2013 the number of preschool educational institutions accounted for 76.4% of the year 2000 level, public general education institutions – 58.4%, hospital beds – 77.9% [10]. In Q4 2013 the minimum wage rate comprised only 65.9% of the subsistence rate. In terms of population income differentiation Russia has become the global leader (1 billionaire per 11 billion household wealth, while the world average ratio is 170 billion household wealth [11]). The number of state-funded enrolments at higher educational institutions tends to decrease which affects the higher education accessibility, etc.

Generally speaking, the above mentioned entails a distressing conclusion: in Russia economic policymaking fails to be human-centered. To address this fundamental challenge this country needs unorthodox initiatives. The extent of their success will determine Russia's future.

An initial step in this direction should be to build a system of government and municipal administration oriented towards human interests. This task is challenging; it requires implementation of a large number of institutional, economic and legal measures, including quite costly ones. Taking into account the downturn in the national economy, these efforts should be started by addressing less cumbersome challenges.

Furthermore, the anticipated measures should create favorable prerequisites for harmonized interaction of government and municipal authorities. For this purpose an acceptable option should be identified to unify functions and structures of these authorities. A feasible solution has been devised: to transform the existing executive government structure into the «person-centered model».

As Figure 1 suggests, the recommended structure model is composed of five specific functional blocks: economic development, social development, tax (income) base development, person development and person protection.

In the existing models of executive government structure the elements of these blocks, as a rule, are assigned to different components that negate operational performance. Especially this is the case of person development and person protection functions, which are incorporated into the corresponding blocks in the recommended model. For instance, the person protection cluster includes all divisions and officers that pertain to this issue: healthcare, law enforcement, consumer rights protection, etc.

It is noteworthy that the suggested structure model is appropriate for all administration levels, including the federal one.

To ensure efficient performance of a government body it is important to identify proper names for its divisions. In this context a famous expression may be cited: «Nomen est omen». «Person development» and «person protection» wordings will contribute to positive shifts in government officials' mentality;

these will constantly remind them that their performance depends on their acknowledgement of human factor.

It is easy to note that the recommended model of executive government structure is simpler and more understandable than the existing ones, it offers numerous other advantages. Its practical implementation will enable:

- 1) to get a better insight that government's attention should focus on an individual with all his / her interests and problems;
- 2) to ensure high level of synchronization of government and municipal authorities' operations at all levels and, consequently, to improve their interaction mechanism;
- 3) to achieve more rational distribution of responsibilities between deputy heads of administration of a rural settlement, district and other governance levels;
- 4) to elaborate higher quality strategies and plans for government divisions' operational segments;
- 5) to create favorable conditions for administrations of various governance levels to oversee operations of subordinate divisions;
- 6) to nearly halve the number of divisions at government bodies. For example, in Russia the existing local administration models envisage over 15 divisions. It is challenging to manage such a number of divisions and services. The recommended model envisages five key blocks which are to be managed by the corresponding deputy heads of a local administration.

It is essential that implementation of the proposed model doesn't involve any risks, and that will contribute to accelerated regional development. Therefore, as experts assert, this model is highly commendable, and eventually it may become a core pattern in Russia. It is worth noting that over 100 of heads of rural and district administrations, who have been trained at the Russian Agricultural & Food Human Resource Development, have served as experts.

In 2014 the recommended government structure model was implemented with assistance of Dagestan Republic Ministry of Economy and Territorial Development in three municipalities: in Agul, Khiv and Suleiman-Stalsk districts. Based on positive outcomes of this project Dagestan Government Resolution dated October 22, 2014 No 501 has recommended the abovementioned model for all the municipalities and urban districts in the republic.

Shortly before the implementation of this pilot project the staff number of local administrations had been cut by 15-17% in the republic. Therefore, some functional blocks have been merged. As an example Figures 2 and 3 present the former and new models of Agul District Administration structure. When comparing these, it will be readily seen that the new model offers advantages. In particular, in the «old» structure deputy heads of the local administration controlled heterogeneous functions: O. A. Mazanayev oversaw operations of education, civil defense and emergency situations divisions; B. A. Kurbanova was in charge of culture and subsidy allocation process.

Therefore, in formation of the municipal administration structure and function distribution between head deputies the management system design principles, including the specialization principle, were obviously infringed; and that has been adversely affecting personnel performance. As the analysis has revealed, such a situation exists virtually in all municipal districts of this country.

The transition of the pilot districts to the new structure model has demonstrated that it is simpler and more understandable for the population, and it enables to exploit advantages of specialization. In particular, blocks, supervised by deputy heads of the local administration, concentrate on homogenous functions. For example, the first block incorporates all functions pertaining to person development and social rural development, including education, culture, sports, housing and public utilities, etc.

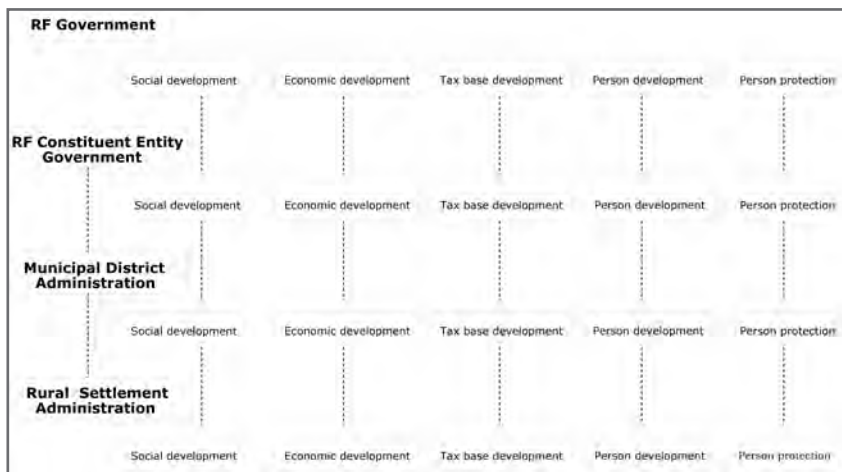


Fig. 1: Person-centered model of executive government structure (draft)  
Source: Author's scheme

The second block is composed of divisions that deal with economic and revenue base issues, the third one includes divisions, commissions and officers that focus on person protection and mobilization. Such approach has provided conducive environment for planning, management and control of district administrations' divisions; it has minimized any mutual overlaps.

Altogether, the transition to the new structure model has generated prerequisites to enhance performance of municipal district administrations in their efforts to promote socio-economic development of their territories.

**5. Conclusions.** The economic government and municipal administration systems have been evolving in all countries. Each new phase of this process differs from the preceding one; first of all, it is relevant to what extent it focuses on human interests. Governments, which have been addressing this challenge efficiently, have succeeded in fostering their national competitiveness.

Russia, as never before, needs the federal authorities to acknowledge this consistent pattern. Only with such an approach it would be possible to impart the so needed and long-awaited breakthrough character to national economic upturn measures.

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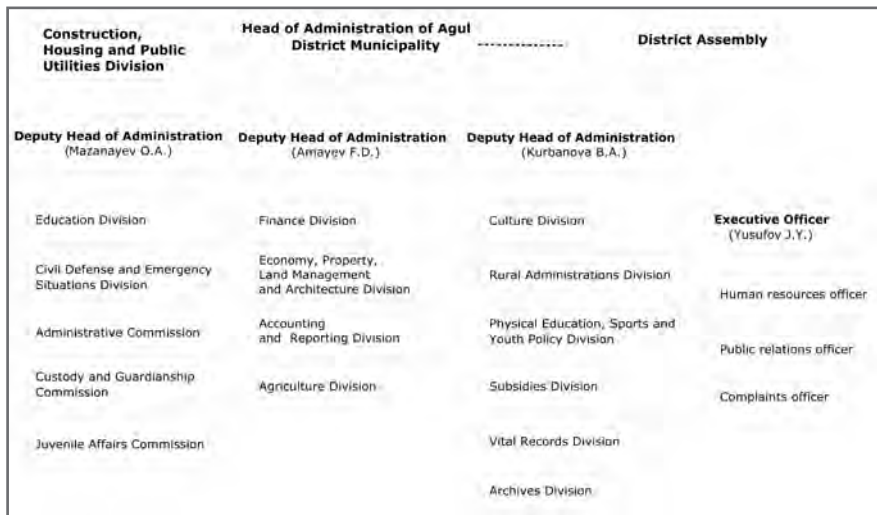


Fig. 2: Structure of Agul District Municipality Administration, Dagestan (actual)

Source: Agul District Municipality Charter



Fig. 3: Structure of Agul District Municipality Administration, Dagestan (draft)

Source: Author's scheme

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