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### **THE CONCEPT OF EFFECTIVENESS OF REGIONAL INDUSTRIAL POLICY**

**Abstract.** At the theoretical and practical levels it has been proved that the mechanism of regional industrial policy should be adapted to the social and economic state of the region's development, taking into account the features of the economic structure and the state of provision of economic resources. There is a problem of searching for a variant of the most effective mechanism of regional industrial policy. Since there are no specific performance criteria for today, it is advisable to study in depth the concept of "the effectiveness of regional industrial policy."

The aim of the article is to study the theoretical and practical aspects of the concept of "the effectiveness of regional industrial policy." The main part of the research is aimed at delineating the semantic load of the concepts "economic effect", "economic efficiency" and "productivity (productivity)."

The essential characteristics of the concept of "the effectiveness of regional industrial policy" have been substantiated in the article. A model for assessing the efficiency and effectiveness of economic policy has been proposed.

**Keywords:** economic benefit; effectiveness of management; performance; efficiency; economic potential.

**JEL classification:** L50, L52, R12, R58

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### **ПОНЯТТЯ ЕФЕКТИВНОСТІ РЕГІОНАЛЬНОЇ ПРОМИСЛОВОЇ ПОЛІТИКИ**

**Анотація.** На теоретичному та практичному рівнях доведено, що механізм регіональної промислової політики повинен бути адаптованим до соціально-економічного стану розвитку регіону, враховувати особливості його економічної структури та стан

забезпечення економічними ресурсами. Постає проблема пошуку варіанту найбільш ефективного механізму регіональної промислової політики. Оскільки на сьогоднішній день невизначено чітких критеріїв ефективності, доцільним є поглиблене дослідження поняття «ефективність регіональної промислової політики».

Метою статті є дослідження теоретичних та практичних аспектів поняття «ефективність регіональної промислової політики». Основна частина дослідження спрямована на розмежування змістового навантаження понять «економічний ефект», «економічна ефективність» та «результативність (продуктивність)». У статті обґрунтовано сутнісні характеристики поняття «ефективність регіональної промислової політики». Запропоновано модель оцінки ефективності та результативності економічної політики.

**Ключові слова:** економічний ефект; ефективність управління; продуктивність; результативність; економічний потенціал.

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## **ПОНЯТИЕ ЭФФЕКТИВНОСТИ РЕГИОНАЛЬНОЙ ПРОМЫШЛЕННОЙ ПОЛИТИКИ**

**Аннотация.** На теоретическом и практическом уровнях доказано, что механизм региональной промышленной политики должен быть адаптирован к социально-экономического состояния развития региона, учитывать особенности экономической структуры и состояние обеспечения экономическими ресурсами. Возникает проблема поиска варианта наиболее эффективного механизма региональной промышленной политики. Поскольку на сегодняшний день неопределенно четких критериев эффективности, целесообразно углубленное исследование понятия «эффективность региональной промышленной политики».

Целью статьи является исследование теоретических и практических аспектов понятия «эффективность региональной промышленной политики». Основная часть исследования направлена на разграничение смысловой нагрузки понятий «экономический эффект», «экономическая эффективность» и «результативность (производительность)». В статье обоснованы существенные характеристики понятия «эффективность региональной промышленной политики». Предложена модель оценки эффективности и результативности экономической политики.

**Ключевые слова:** экономический эффект; эффективность управления; производительность; результативность; экономический потенциал.

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**Formulation of the problem.** Industrial development is organically linked to the territorial transformation of the productive forces. Therefore, a balanced regional industrial policy is an important prerequisite for the economic stability of Ukraine.

On the theoretical and practical levels it has been proved that the mechanism of regional industrial policy must be adapted to the social and economic condition of the region, particularly to take into account the economic structure and the state of providing economic resources. There is a problem of finding the most effective mechanism of regional industrial policy. Because today effectiveness has vague criteria, in-depth study of "effectiveness of regional industrial policy" concept is appropriate.

**Analysis of studies and publications.** In the process of research scientific works of Ukrainian and foreign scientists have been used, namely: A. Pavlyuk, B. Kvasnyuk, V. Keretsman, V. Pyla, V. Chuzhykov, D. Stechenk, E. Libanova, I. Zablods'ka, L. Pel'tek, M. Dolishniy, M. Kozoriz, M. Chumachen'ko, O. Kudrina, O. Obolens'ky, S. Pyrozhekov, S. Romanyuk, Ya. Zhalilo, Ya. Oliynyk.

Authors Zinov'yev F. V. and Nemirovych S. N. determine the economic effectiveness, as the ratio of cost of sales to the actual costs of their production [9].

In the works of Kudenko H. Ye., Kanars'ka I. V., Byelyentsov V. N., Syevost'yanova S. I. [10] define effectiveness as a goal at the lowest cost.

According to K.R. McConnell, S.L. Brue economic effectiveness characterizes the relationship between the number of units of scarce resources and the resulting amount of a product [2].

**The aim of the article** is to study the theoretical and practical aspects of the concept of "the regional industrial policy effectiveness." The main part of the study is focused on the distinction of semantic load of the concepts "economic benefit", "economic effectiveness" and "efficiency (performance)." The purpose of the article led to the allocation of the following main objectives: justification of the essential characteristics of the concept "the effectiveness of regional industrial policy"; construction of a model evaluation of the effectiveness and efficiency of regional industrial policy.

**The main results of the study.** In practice of management the concept of "regional industrial policy effectiveness" is formed from the position of the various approaches to the interpretation of the concepts "economic benefit", "economic effectiveness" and "efficiency (performance)."

The economic effect is the efficiency of economic activities, the implementation of economic programs and activities, characterized by the ratio of the resulting economic effect (result) to the cost of resources that led to obtaining this result. [8]

Regarding the term "economic effectiveness" today there are a number of approaches to its interpretation. Some authors define economic effectiveness as a comparison of the results achieved and the costs incurred; resource efficiency in the production of material goods; the productivity of social labor; the magnitude of effect per unit of total costs, etc. [12, p. 152].

So Zinov'yev F. V. and Nemirovych S. N. determine the economic effectiveness as "... the ratio of cost of sales to the real costs of their production," i.e. associating it only with the effectiveness of production costs [9]. Voronin A. [6] determines the economic effectiveness similarly: "The effectiveness (economic) is an indicator that correlates the result with running costs that cause this effect, or used economic resources" [5].

Another group of scientists focuses not only on minimizing costs but determines the need to achieve the goal(s) as the basis of effectiveness. So Kudenko H. Ye., Kanars'ka I. V., Byelyentsov V. N., Syevost'yanova S. I. [10] define efficiency as the goal at the lowest cost. Kabushkin N. I. focuses on managerial effectiveness and defines it as "... the degree of achievement of goals." Myeyerovych H. Sh. emphasizes the need of functional approach to determine the effectiveness and says that: "The effectiveness of the system is the degree of adaptation to perform those functions in the particular operation and under certain conditions" [11].

The definition of what constitutes effectiveness by Raimundas Rayatskas [2] is interesting, who identifies it with efficiency: "Effectiveness is a concept that means efficiency of functioning of any system" [13].

In foreign practice to evaluate management actions two basic terms are used: «efficiency» and «effectiveness» .

Famous economist Yitzhak Adizes made interesting conclusions concerning the semantic load of these concepts in his work "On the effectiveness, efficiency and their consequences" [1]. Analyzing the content of the first concept (performance, «efficiency») the author notes that "... efficiency is determined by how many "units of input" will be necessary to produce one unit of output. The system is productive if it can perform all its functions with minimal energy. To be productive, it must be orderly, systematic and programmed" [Ibid]. Since productivity growth is necessary to accumulate the maximum of available economic resources, the system (including the economy of the region) can provide «efficiency» only for a short period and it becomes less innovative and effective in the long run.

Theoretical load of the next term «effectiveness» the author identifies as an opportunity of a system to create "... what system was established for- to provide the necessary function" [1]. Adizes stresses that effectiveness is formed through trial and error: "To be effective, we must constantly try different ways - until you find the correct version" [1]. The basis of the effectiveness of the system in the long run is its innovation. The overall conclusion made by the author is as follows: if the system is "... not willing to sacrifice efficiency, it will sacrifice its effectiveness" [Ibid].

Peter Drucker emphasizes on the differences of content of concepts "efficiency" and "effectiveness". According to the author, the differences lie in the choice of achieving economic effect: "efficiency" means "do the right thing» (doing the right things), and "effectiveness" - "do things right» (doing things right) [7]. The author also notes that the efficiency and effectiveness should be evaluated not only according to financial performance, as these indicators are not able to cover all economic activities. For example it is rather difficult to assess certain types of management in monetary form.

In the book "Economics" Karl R. McConnell, S.L. Brue state that: "Economic effectiveness describes the relationship between the number of units of scarce resources, which are used in the production process, and received amount of product" [ 2].

Professor Paul Heine offered the following definition of effectiveness: "Effectiveness is a positive factor that most consistently is touted by economists. This should not be surprising, since the effectiveness and efficiency are almost synonyms. Both terms describe "the effectiveness" of the use of funds to achieve the objectives "[14]. According to the author effectiveness depends on the evaluation of physical and technological parameters. " Effectiveness determines the ratio of results evaluation to costs assessment" [ibid].

Thus, depending on the type of activity evaluation parameters, and therefore the content of effectiveness, are substantially different. Since the main object of research supports the effectiveness and efficiency of administrative activity in one of the sectors of the regional economy, further researches should be directed towards the clarification of what constitutes "management effectiveness."

One of the most common interpretation of the content of this concept is the following definition: "Effective management is the result compared with the cost of achieving it (with costs including both the direct costs of the management system and the cost of the administrative decisions)" [6, c. 230].

Today, the evaluation of the effectiveness of economic policy most often comes to assessing administrative activity from the standpoint of efficiency and effectiveness. Thus, the Swedish economist E. Vedunh recommended to use efficiency indicators (as the state of achievement of goals) and effectiveness (comparison and analysis of costs and benefits in monetary terms, and assessment of the use of resources to achieve the goals) for evaluation of economic policy [4].

The authors, for visualization of defined terms, used model "input-product", which was developed by the European Union for project evaluation (Fig. 1)

The model has three key indicators:

- performance - a comparison of the costs (inputs) and profits;
- effectiveness (cost effectiveness) - a comparison of costs (inputs) and results (effects);
- efficiency (achieving objectives) - a comparison of these goals and the results.

The product in the model determines a specific physical result, which is formed as a result of certain actions and can be determined quantitatively.

The end result means a benefit which is defined by purpose of specific measures and defined as improvement of certain qualitative and quantitative characteristics.

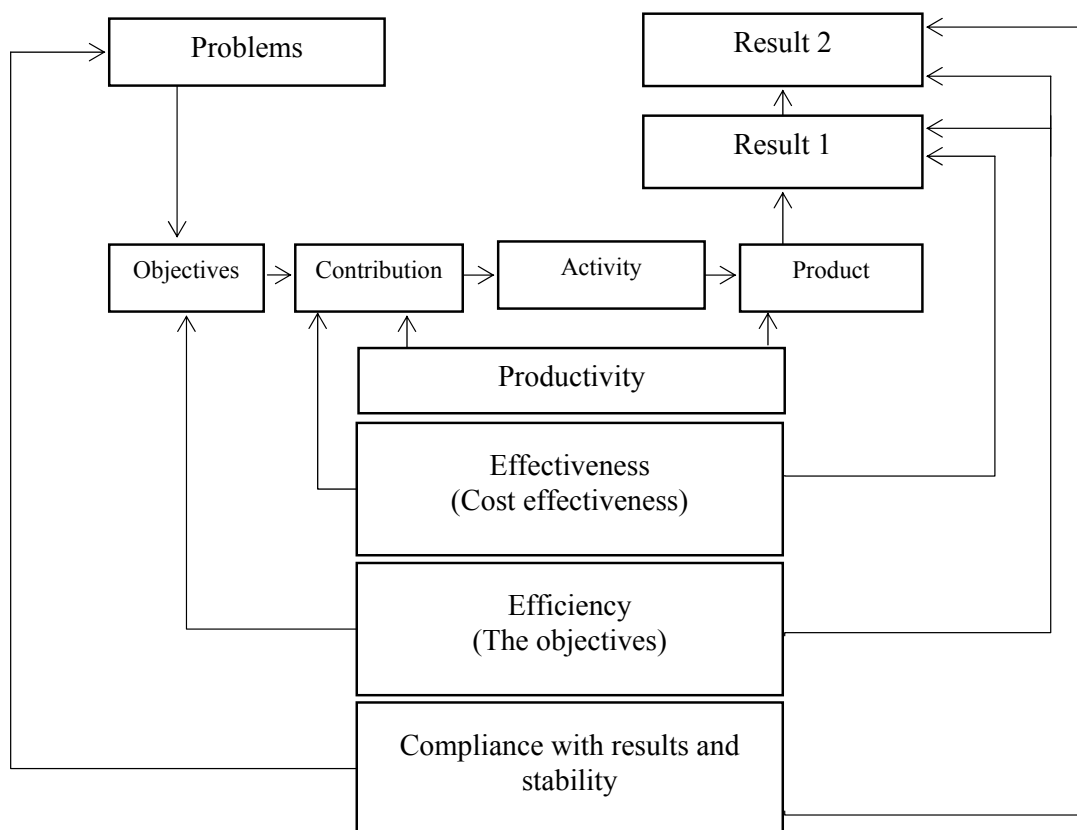


Fig. 1. Model "input -product", developed by the EU [3, p. 69]

According to a survey of existing approaches to the interpretation of what constitutes efficiency and effectiveness of economic policy and the model of "input -product" (see. Figure 1), we built a model for evaluating the efficiency and effectiveness of economic policy (Fig. 2).

Under the proposed model assessment of economic policies should be carried out in two directions:

- assessment of efficiency - determining the degree of the purposes achievement, obtaining utility of the measures, economic, social or other effects from the use of policy instruments;
- evaluation of effectiveness - the ratio between costs incurred (used economic resources) and the result.

Since the policy measures are implemented with some clearly defined purpose, the starting point of the analysis is to achieve appropriate results. It is logical to assess the indicator on a scale "achieved", "not achieved" or by using the scale with the other, more specific gradation.

Effectiveness indicator reflects quantitative trends. In order to clarify and specify the efficiency of economic policies it is appropriate to select parameters of effectiveness:

- static effectiveness is a constant, which characterizes a certain level of performance indicator based on which you can draw conclusions about sufficient (acceptable) level of it. Indicators of static effectiveness may be optimal or generally accepted values inherent in a particular industry, region or field of activity;
- dynamic performance (effectiveness) - reflects the dynamics of the performance indicator under the influence of external and internal environment of the system. This effectiveness provides more opportunities for analysis and development of further recommendations;

- comparative effectiveness is formed by matching performance indicator obtained within the system (national economy, region, industry, type of activity) and performance indicators of other similar systems. In addition the results or product can be characterized by different levels of effectiveness evaluated regarding various features (high level of economic effectiveness compared to social effects, higher effectiveness of the implementation of measures for specific sectors or regions, etc.).

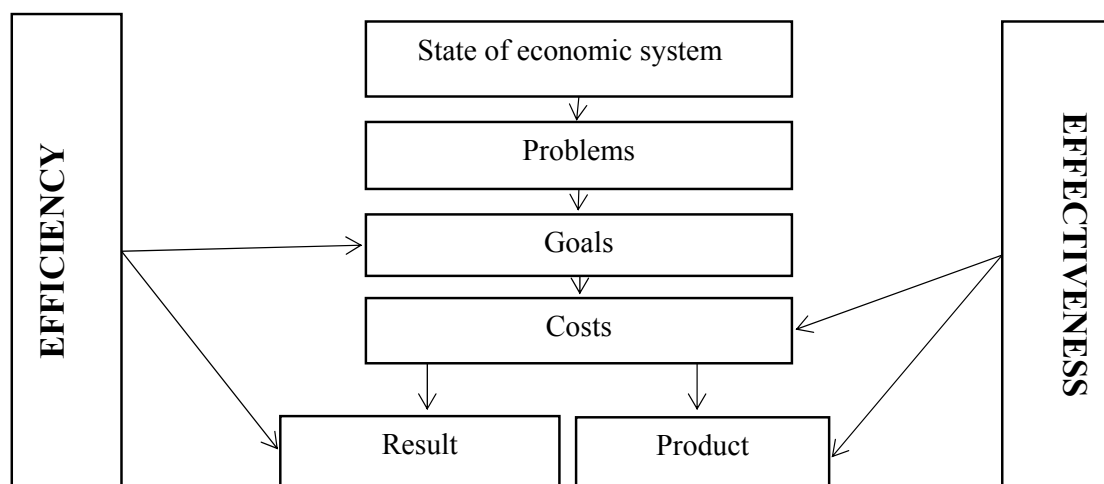


Fig. 2. Model of the effectiveness and efficiency of economic policy evaluation (authors' development)

Research of existing theoretical approaches and practical implementation of policy measures shows that the vast majority of them is focused on research and evaluation of efficiency, not effectiveness of regulatory measures.

Analysis of the efficiency of industrial policy measures has a different focus. Efficiency is the degree of achievement of objectives and planned results; effectiveness evaluates the mechanism to achieve the specified parameters and allows evaluating compliance with (comparability) costs incurred and the results.

To analyze and assess the efficiency a specific set of indicators is used that can not be used to assess the effectiveness because of different nature of objectives of evaluation technique. One of the options of efficiency evaluation can be application of integrated assessment of the economic potential of the region.

To establish the relationship of elements that form the economic potential of the region its functional structure has been defined that takes into account all functions of industrial plants and is presented by a set of potentials, each of which reflects the use of appropriate resources and the implementation of relevant functions (Fig. 3).

The functional components of economic potential are:

1. The production potential, which includes material assets and their possible use in the production.
2. The financial potential, including own and borrowed funds and the possibility of their use in economic activities.
3. Scientific and technical potential, which includes the possibilities of the region to develop and implement the results of scientific and technological progress.
4. The ecological potential, including the possibility to carry out economic activities in the region, preserving the ecosystem.
5. Labour potential is formed as a collection of labor potential of all functional activities.
6. Export potential is the ability of the region's economy to produce products competitive on world markets, export it in sufficient quantities at world prices.

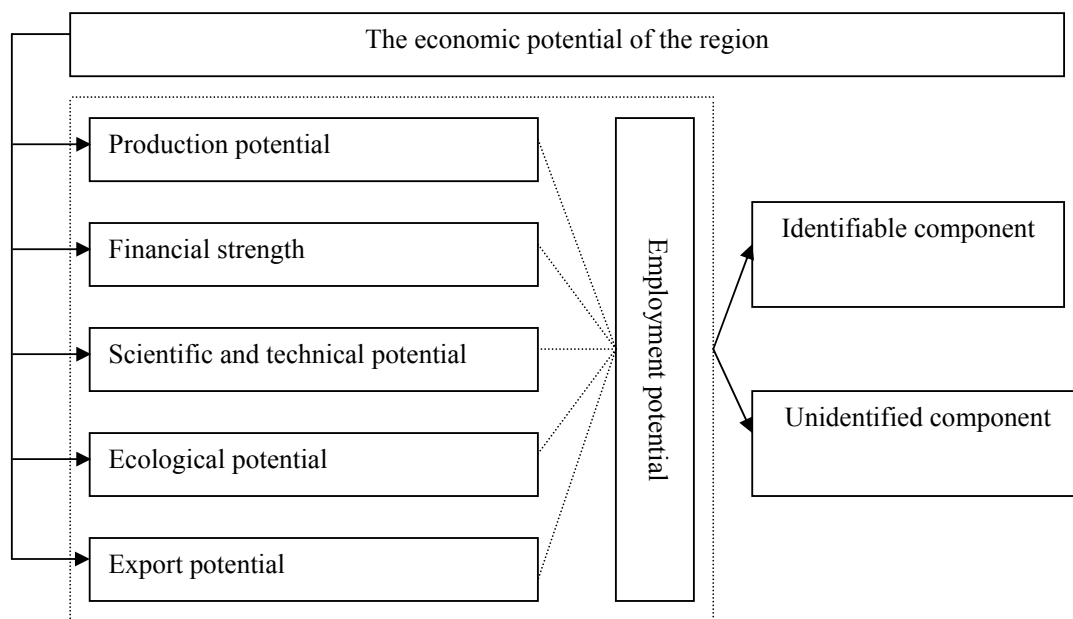


Fig. 3. Structural elements of the economic potential of the region [2, p. 99]

The specifics of the region's economy determines the characteristics of the content of the functional components of the economic potential and determines the particular methodology for assessing the effectiveness of industrial policy measures.

To assess the level of economic potential some relative indicators that characterize important parameters of social and economic potential of the region can also be used.

**Conclusions and prospects for further research.** Thus, an effective regional industrial policy is a policy that meets the goals and directions of optimization of market relations in the industrial complex of the region, taking into account the specific strategies and tactics of its development and is the least costly.

Regional industrial policy based on the promotion of innovative and investment activity has to transform economic potential of the region into a coherent subsystem - competitive component of national industry and regional economy.

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