

HUMAN RESOURCE POLICY: THE WAY TO INCREASE THE INVESTMENT ATTRACTIVENESS OF THE MUNICIPAL TERRITORY

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Abstract

Quantity and quality of human resources are the main factors of regional and municipal investment attractiveness. According to all the surveys, there is low level satisfaction of entrepreneurs by the quantity and quality of human resources. Therefore, studying the correlation between of entrepreneur satisfaction and the supply factors of labour market and preparing recommendations for human resources policy development is a high priority task and the objective of this paper. The data for subjective view was the satisfaction survey of small and medium businesses of the Sverdlovsk region by factors of the institutional environment in the year 2015 (973 respondents in 73 territories). The results of the research allow developing a series of human resources policy recommendations to improve the investment climate. The basis for selection of priority measures to improve the satisfaction of entrepreneurs is the correlation of satisfaction indicator and objective the parameters of the supply factors of the labour market. Findings demonstrate as a governance model. The same recommendations were provided to improve the methods of satisfaction survey of small and medium businesses by factors of state and municipal human resources policy.

Key words: investment climate, human resources management, governance mechanism, management factors, Russia.

JEL Code: J24, J31, M51

Introduction

A paradigm shift in public administration that took place in the Anglo-Saxon management thinking in the 1990s of the last century and reflected in the Administrative reform in the Russian Federation implemented in 2003 is connected with the transition from Public Administration to the concept of New Public Management. According to this management techniques developed by corporations are transferred to the public sector (Osborne, 1993).

Among the four consolidated goals of the public administration reform based on the concept of new public management, which was publicly declared by the 14 governments

investigated by Nick Manning in the first place, there is an "increase of investment appeal" (Manning, 2001). Investment attractiveness, in turn, combines the investment potential and the level of national (regional, territorial) investment risks. Investment potential of the state (region, area) is a collection of investment resources, giving the physical ability to economic entities to invest in the economy. The investment risk of the state (region, area) is the probability of incomplete use of the investment potential (Kokovikhin, 2017).

The most important resource components of investment potential are quantitative and qualitative characteristics of labor force, labor market institutions, mechanisms of human resource management that collectively ensure the availability of the qualified labour resources for the investor. For investors and authorities to take decisions it is important to have relative indicators of the investment environment provided in the relevant ratings including national rating and regional rating of investment environment. In the National rating of the investment climate in 2016, prepared by the end of 2015, the Sverdlovsk Region is included in the second group of five. Compared to the previous year there is an increase of 12 positions¹.

Unlike the regional management level, for which a number of human resources management recommendations were developed to increase the investment attractiveness of the region, there are far from plenty of those at the municipal level. The article attempts to contribute to filling this gap. At the same time, the information on the entrepreneur assessment of the availability of qualified labour in the Sverdlovsk region, obtained while implementing the state contract for the Ministry of Investments and Development of the Sverdlovsk Region in 2015, helped to conduct another research. This research aimed to evaluate the contribution of labor market factors to Investment attractiveness of the municipality and develop the mechanism of human resources management in the municipality.

1 Theoretical framework

In the classic work of R. Daft, the management mechanism is defined as "a set of actions and methods of influencing people's activities in order to encourage them to achieve organizational goals" (Daft, 2003). The structure of the management mechanism includes management objectives; management factors - elements of the management object and their relationships, which are impacted for achieving the goals; methods of influencing these management factors and management resources.

¹ National rating of the investment climate in the constituent entities of the Russian Federation. Access mode: <http://www.investinregions.ru/rating>.

Based on the purpose and subject of research, the object of management are the human resources of the municipal unit. When identifying management factors, the researchers took into account the view of Academician A.Tatarkin, who saw the investment climate as a combination of external and internal factors affecting the activities of small and medium-sized enterprises. The list of investment climate factors should be divided into two main groups:

- 1) resource factors: political, economic, climatic, legal, cultural, infrastructural and other;
- 2) institutional factors: formal and informal rules of economic agents' activities (Tatarkin, 2013).

Resource-based theory as the basis for long-term competitiveness of the firm recognizes the features of the available resources and opportunities. From the point of view B. Wernerfelt any organization is able to provide a sustainable competitiveness through good management of joint use of material and non-material resources at its disposal (Wernerfelt, 1984). Human resources are one of the most important conditions for long-term competitiveness and thereby they are a factor of the investment attractiveness of the territory.

Identifying the econometric model variables (in the positive analysis of the human resources contribution to the investment attractiveness of the territory) was based on the microeconomic theory of the labor market: factors of labour supply increase or decrease the supply of labor (Fedorova, 2015), directly affecting the availability of qualified labour for the investor.

External factors influence the institutional framework in the specific industry, which gives organizations advantages in their economic activities. For example, some organizations reach higher performance if they are provided institutional support (Scott, 2008). In this regard, institutional factors were considered within the benchmarking approach as the best institutional practices and reflected in the human resources management model of a municipal unit.

This theoretical approach considering the quality of resources and institutions as the basis for the investment climate and the object of management in public policy brings together the researchers in the theory of entrepreneurship (Bawmol, 2002; Reynolds, 2004; Shane, 2003). Particularly, the 2010 International award winner for contribution to the study of entrepreneurship and small business Y. Lerner defines the quality of infrastructure and dissemination of best institutional practices as the main areas of effective public policy for developing entrepreneurship (Lerner J. (2009).

2 Methods of research

The research methodology included accumulation of data and information using different methods: analyzing scientific publications, conducting structured interviews and econometric analysis. Data presented both historical and current information in the given social sphere. The reasons for using the specified methods are connected with the research of social phenomena: national culture, values, behavior and personnel management practices. Thus, the collection, selection and analysis based on methods of interpretation (they reveal ideas (meanings) emerging in human economic activities, show their scope) provide the basis for achieving tangible results and developing recommendations.

In December 2015, commissioned by the Ministry of Investments and Development of the Sverdlovsk region, there was conducted a comprehensive assessment analysis of the investment climate in municipalities located in the Sverdlovsk Region (state contract No. 0162200032215000009-0657446-01).

The main objective of the study was to determine the level of the business community satisfaction with the conditions of doing business in the Sverdlovsk region. In the course of that work a large scale survey of entrepreneurs was conducted which aimed at exploring the institutional environment for doing business in the municipalities of the Sverdlovsk region. The survey involved 973 small and medium-sized businesses, distributed by types of activity in the following percentage terms: production and distribution of gas, electricity and water - 12.23%, construction - 11.31%, wholesale and retail trade - 25.90% , hotels and restaurants - 12.74%, transport and communications - 12.13%, other activities - 25.69%. The small and medium-sized business entities that participated in the survey met the criteria on the number of employees in business set forth in the Federal Law No. 209-FZ of July 24, 2007 "On the Development of Small and Medium-Sized Enterprise in the Russian Federation."

The geographic scope of the research includes 73 municipalities in the Sverdlovsk Region: Eastern Administrative District - 23.74%; Southern Administrative District - 20.86%; Gornozavodskoy Administrative District - 16.34%; Western Administrative District - 15.72%; Northern Administrative District - 17.68%; Ekaterinburg - 5.65%. Summarizing the results of the survey helped to identify the proportion of respondents who were "satisfied with the availability of the labour of the required qualification in the municipality" and it helped to form the rating of municipalities by this indicator value.

In order to identify the contribution of the labor market factors to the provision of investment-attractiveness of the municipality the correlation between the values of "entrepreneur satisfaction with available labour of the required qualification" and labour supply factors. Labour supply factors used in the correlation analysis were taken from the works of

Russian researchers, who studied the labour markets of various levels (Tab. 1) (Kokovikhin, 2016). In the analysis of labour supply factors 2 possible recruitment strategies were taken into consideration: recruiting in the territorial labour market and recruiting in the external labour market (territorial mobility). The selection of labor supply factors considered the ability of the local authorities to influence these factors, taking into account their powers.

3 Results

The survey obtained nontrivial results for 72 of the 73 municipalities. The observed variation of respondents satisfaction with the availability of labor of the required qualification allows to assess the correlation between level of entrepreneur satisfaction with the availability of labour of the required qualification and labour supply factors, presented in Table 1.

Tab. 1. Factors of labor supply.

| No | Factor | Indicator | Symbol |
|--|--|---|--------|
| I. Recruiting in the municipal labour market | | | |
| 1. | Population size | The proportion of the municipality population in the total population of the region, % | N |
| 2. | The working age population | The proportion of the working age population% | Nt |
| 3. | The quality of secondary education | The average Math score at the Unified State Examination (basic exam), own score | Es |
| 4. | Coverage of residents with secondary vocational education | Number of secondary vocational institutions graduates per 10000residents,% % | Ev |
| 5. | Coverage of residents with higher education | The number of higher education institutions graduates per 10,000 residents, % | Eh |
| II. Recruiting in the external labour market | | | |
| 6. | The relative wage level | The ratio of average wages in the municipality to average wages in the economy of the region,% | W |
| 7. | Labour employed in the territory of other municipalities (commuters) | The share of working-age population not employed in the territory of the municipality not registered unemployed (according to the balance of labor resources),% | U |
| 8. | Accessibility of transport infrastructure | The volume of bus transportation, thousand people. | T |
| 9. | Housing Fund | The volume of housing construction per 1 resident, square metres. | H |
| 10. | Affordability of housing | The average cost of 1 square metre of housing | Hp |

Source: Authors' own elaboration

When evaluating correlations between the level entrepreneur satisfaction with the availability of labor with required qualification and absolute values of indicators characterizing the labour supply factors, significant values of the correlation coefficients were obtained for the following factors: working-age population (0,532), the coverage of residents by secondary vocational education (0,434), relative wages (-0,642), labor employed in the territory of other municipalities (0,423) (Table. 2). This fact testifies to the importance of these supply factors

and the need for their being considered as management factors in the mechanism of human resources management in the municipality.

The values of correlation coefficients ranging from 0.4 to 0.2 are obtained for such factors as: population size (0,315), the quality of secondary education (0,214), the coverage of residents by higher education (0,342), availability of transport infrastructure (0,243), housing affordability (of (0,257). The values of correlation coefficients below 0.2 are obtained for the factor of housing fund (0,124) that is connected with a significant reduction in the volume of residential construction in 2015.

Tab. 2. The correlation coefficients of entrepreneur satisfaction with availability of labor with required qualification and absolute values of indicators characterizing the factors of labor supply.

| Var. | F | N | Nt | Es | Ev | Eh | W | U | T | H | Hp |
|------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|-------|
| F | 1,000 | - | - | - | - | - | - | - | - | - | - |
| N | 0,315 | 1,000 | - | - | - | - | - | - | - | - | - |
| Nt | 0,532 | -0,143 | 1,000 | - | - | - | - | - | - | - | - |
| Es | 0,214 | 0,478 | 0,247 | 1,000 | - | - | - | - | - | - | - |
| Ev | 0,434 | 0,547 | 0,354 | 0,248 | 1,000 | - | - | - | - | - | - |
| Eh | 0,342 | 0,642 | 0,214 | 0,325 | 0,754 | 1,000 | - | - | - | - | - |
| W | -0,642 | 0,425 | 0,478 | 0,314 | 0,421 | 0,754 | 1,000 | - | - | - | - |
| U | 0,423 | -0,345 | -0,124 | -0,012 | -0,247 | -0,345 | -0,785 | 1,000 | - | - | - |
| T | 0,243 | -0,543 | 0,067 | 0,024 | 0,458 | 0,758 | 0,754 | 0,644 | 1,000 | - | - |
| H | 0,124 | 0,521 | -0,074 | 0,247 | 0,489 | 0,542 | 0,642 | -0,143 | 0,455 | 1,000 | - |
| Hp | 0,257 | 0,425 | 0,042 | 0,217 | 0,548 | 0,854 | 0,547 | -0,245 | 0,385 | 0,744 | 1,000 |

Source: Authors' own elaboration

In order to determine how the local authorities activities in increasing the availability of labour influence entrepreneur satisfaction with the availability of labour with the required qualification the researchers assessed the correlation between the level of entrepreneur satisfaction with the availability of labour with the required qualification and relative (dynamic) values of indicators characterizing the factors of labor supply (Tab. 3).

Significant values of correlation coefficients were obtained for the following factors: the relative level of wages (-0,324), labor employed in the territory of other municipalities (0,428) the availability of transport infrastructure (0,399) (Tab. 2). On the one hand, these results show that the level of entrepreneur satisfaction with the availability of labour with the required qualification increases while decreasing employee wages compared to other regions, reducing employment in the municipality, increasing passenger traffic (a high level of correlation with the previous factor (0,521). The dynamics of the three factors characterizes the crisis conditions in the economy of the region connected with the decline in production, income and, to a lesser extent, employment in manufacturing, mining, construction and retail turnover in 2015. This means that the entrepreneur assessment of availability of labour with the required

qualification was to some extent influenced by the market situation factors not related directly to the local authorities performance.

Tab. 3. The correlation coefficients of the level of entrepreneur satisfaction with the availability of labour with the required qualification and relative (dynamic) values of indicators characterizing the labor supply factors.

| Var. | F | N | Nt | Es | Ev | Eh | W | U | T | H | Hp |
|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|
| F | 1,000 | - | - | - | - | - | - | - | - | - | - |
| N | 0,092 | 1,000 | - | - | - | - | - | - | - | - | - |
| Nt | 0,105 | -0,245 | 1,000 | - | - | - | - | - | - | - | - |
| Es | 0,012 | 0,008 | -0,021 | 1,000 | - | - | - | - | - | - | - |
| Ev | -0,008 | -0,012 | -0,044 | 0,124 | 1,000 | - | - | - | - | - | - |
| Eh | 0,054 | -0,021 | -0,032 | -0,054 | -0,234 | 1,000 | - | - | - | - | - |
| W | -0,324 | -0,521 | -0,457 | 0,048 | 0,015 | 0,045 | 1,000 | - | - | - | - |
| U | 0,428 | 0,214 | 0,384 | -0,019 | 0,027 | -0,014 | -0,057 | 1,000 | - | - | - |
| T | 0,399 | 0,518 | 0,323 | 0,041 | 0,031 | 0,054 | 0,024 | 0,521 | 1,000 | - | - |
| H | -0,037 | -0,421 | 0,211 | 0,070 | 0,147 | -0,047 | 0,014 | -0,027 | 0,077 | 1,000 | - |
| Hp | 0,124 | -0,385 | 0,121 | 0,021 | 0,047 | -0,028 | -0,017 | -0,011 | -0,024 | 0,344 | 1,000 |

Source: Authors' own elaboration

Significant values of correlation coefficients were obtained for the following factors: the relative level of wages (-0,324), labor employed in the territory of other municipalities (0,428) the availability of transport infrastructure (0,399) (Table. 2). On the one hand, these results show that the level of entrepreneur satisfaction with the availability of labour with the required qualification increases while decreasing employee wages compared to other regions, reducing employment in the municipality, increasing passenger traffic (a high level of correlation with the previous factor (0,521)). The dynamics of the three factors characterizes the crisis conditions in the economy of the region connected with the decline in production, income and, to a lesser extent, employment in manufacturing, mining, construction and retail turnover in 2015. This means that the entrepreneur assessment of availability of labour with the required qualification was to some extent influenced by the market situation factors not related directly to the local authorities performance.

On the other hand, significant value of correlation coefficient of entrepreneur satisfaction with availability of labour with the required qualification and factors characterizing the mobility of labor resources, shows their importance as factors of territorial human resource management.

Based on the results of research on the influence of labor supply factors on entrepreneur satisfaction with the availability of labor with the required qualification, taking into account the analysis of the selected papers on human resource management at the regional and territorial level (municipalities) we propose the model of human resources management mechanism for municipalities (Tab. 4.).

Tab. 4. Model of human resources management mechanism of the municipal unit

| Management mechanism | Contents |
|--|--|
| Management goal | Ensuring the availability of labour resources with the required qualification for the investor |
| Objectives (criteria) of management | <ol style="list-style-type: none"> 1. Positive dynamics of the quantitative and qualitative characteristics of the labor resources of the territory (ensuring positive dynamics of the working age population; ensuring the quality of basic general education; developing vocational education). 2. Providing conditions for reducing the cost of attracting labor from external areas (developing the transport infrastructure; providing conditions for housing construction). |
| Management factors | <ol style="list-style-type: none"> 1. Quantitative and qualitative characteristics of labor resources of the territory (the size and structure of the working population; the quality of secondary and additional education; the accessibility and quality of vocational education). 2. Labour mobility (the condition of the transport infrastructure; administrative barriers in housing construction). |
| Management methods | Strategic planning; program-targeted management; project management; social partnership; setting the municipal tasks and the municipal order. |
| Management resources | <ol style="list-style-type: none"> 1. Material (municipal property and land fund; the property of the municipal budget and Autonomous institutions and enterprises). 2. Financial (funds for activities of the Federal target programs; the state programs of the Federation; the municipal programs; extrabudgetary revenues of the municipal budget institutions and autonomous institutions and enterprises). 3. Social (social partnership resources; activities of non-profit organizations) 4. Institutional (powers in the field of road activities; housing construction; primary general, basic general, secondary general education in municipal educational organizations; organizing the provision of additional education to children in municipal educational organizations; agreements made within the social partnership). |

Source: Authors' own elaboration

Methods of human resource management of the territory which are represented in the model include not only administrative methods, but also social and economic one. They comprise the best practices demonstrated in the municipalities of the Sverdlovsk region, including the use of social partnership tools.

Management resources are divided into material, financial, social and institutional ones. They take into account the importance of attracting to the municipal budget the resources of the Federal budget, of the budget of the Federation subject, as well as attracting the powers of local government authorities.

Conclusion

The obtained results of the research show a significant importance of human resources management in forming the investment attractiveness of the territory. The mechanism of human resources management of the territory is created to ensure the availability of labour resources with the required qualification for the investor. With 2 possible recruitment strategies, in the territorial labour market and in the external labour market, the tasks of the local governments are, on the one hand, ensuring the positive dynamics of quantitative and qualitative

characteristics of the labor resources of the territory, creating conditions for reducing the cost of attracting labor resources from other areas.

The most important factors of human resource management in the area are quantitative, qualitative characteristics and labor mobility. In addition, the methods used and the resources of human resource management should take into account the powers of local authorities, best practices, as well as the importance of attracting to the municipality the budgetary resources of the federal budget and the federal budget of the subject of the Russian Federation.

The results show the feasibility of changing the methodology for assessing the results of activity of local governments aimed to provide the labour resources with the required qualification for the investors. There is a shift from satisfaction scores as a whole which depend on the general economic situation factors to assessing the results of solving workforce management tasks – to provide the dynamics of quantitative and qualitative characteristics of the labor resources of the territory and reduce the cost of attracting labor resources from other areas.

Further studies in human resources management to form investment attractiveness of the municipality may be associated with an analysis of the effectiveness of human resource management institutions, territories, the use of competent approach in their forecasting and planning.

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