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## Main aspects of development strategy of city economy

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### Abstract

At the present stage of economic transformation it is determined an imperfect system of housing and communal services (HCS) managing. It is researched the ways of improving the development and implementation of strategic utilities. As a result, synthesis of experience of the utilities in developed economies proved the need of using a mixed model which takes into account the position of German and French models. It is determined that for the reform and development utilities it is necessary to create a general system of social and economic, organizational and managerial relationships, to achieve optimal spatial structure of the sphere of management, rational use of borrowed resources to satisfy the needs of the population to increase their living standards. It is proved the necessity of introduction and implementation mechanisms of a competitive market and development of proposals to improve the legal framework that regulates the functioning and development utilities. As the result of systematization of existing theoretical and methodological approaches it is identified characteristics and functioning of utilities. The theoretical propositions to form the ways of increasing the effectiveness and the functioning of housing and communal services are thus systematized. It is improved the necessity to develop the strategies of utilities development and it is developed its main directions according to the specific of introduction.

Nell'attuale fase di trasformazione economica si è venuto a creare un sistema imperfetto di gestione dei servizi di housing e comunale (HCS). Vengono ricercati i modi per migliorare lo sviluppo e l'attuazione di programmi strategici per le public utilities. Di conseguenza, fondandosi sull'esperienza delle utilities nelle economie sviluppate, si è rivelata la necessità di utilizzare un modello misto, che prenda in considerazione la posizione sia dei modelli tedeschi che francesi. Si è osservato che per le utilities di riforma e sviluppo è necessario creare un sistema generale di relazioni sociali ed economiche, organizzative e gestionali, per raggiungere la struttura spaziale ottima dell'intervento gestionale per l'uso razionale delle risorse ricevute in prestito per soddisfare le esigenze della popolazione ad aumentare il loro tenore di vita. È stata dimostrata la necessità di introdurre e di implementare meccanismi tipici di un mercato competitivo e lo sviluppo di proposte volte a migliorare il quadro giuridico che regola il funzionamento e lo sviluppo delle utilities. Come risultato della sistematizzazione degli approcci teorici e metodologici esistenti, si sono identificate le caratteristiche e il funzionamento delle utilities. Alcune proposizioni teoriche per ricercare i modi per aumentare l'efficacia e il funzionamento dei servizi di housing e comunali sono state sistematizzate. È stata evidenziata la necessità di migliorare le strategie di sviluppo delle utilities e sono state presentate alcune prospettive principali secondo le specifiche indicate nell'introduzione.

**Keywords:** strategy development, business, utilities, machinery, competitive advantage

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## 1 – Introduction

In terms of permanent transformations and effects of the financial and economic crisis one of the most important socially oriented issues is to ensure sustained development of housing and communal services and it requires coordinated actions. The results of housing and communal services in the economic sector of Ukraine are largely determined by the social and economic indicators of social development.

The urban economy creates the necessary conditions for normal life and activities of the population as the main productive forces of society. In addition, the value of presented area in the national economy is determined by the amount of rendered services indicators (annually about 8 bln. UAH) and the value of fixed assets (25% of total assets owned by the state).

Imperfect system of urban management, insufficient rate of reform led to the fact that companies within the industry can not work effectively in the market, give consumers the level and quality of services that are comparison of their cost, the risk of industrial accidents.

Ukraine's economy transition to a market economy needs reform and development of municipal economy in Ukraine in general and relevant enterprises, in particular, taking into account the characteristics and experience gained in other developed countries.

The features of the urban economy development in Ukraine is the low level of major repairs of housing; the low level of involvement an effective owner in housing utilities sector; worsening environmental problems in connection with the use of housing and communal services; unsubstantiated and imperfect pricing policy, financial problems; organizational and communication problems; underdeveloped market technologies; immaturity innovation infrastructure; shortcomings of the legal framework of innovation; lack of conditions to establish cooperative relations with other entities in the housing and utilities sector; imperfect information support: the absence or unavailability of systematic information about new technologies that have the potential for commercialization, as well as the status and projections of housing and communal services, taking into account market relations; problems of inner character: low innovative potential of housing, lack of qualified technical and management personnel on the background of immaturity of consulting and engineering infrastructure; lack of effective cooperation with foreign and domestic investors for joint projects in the sphere of housing and communal services and others. In such circumstances it is necessary to rethink approaches to developing and implementing the strategy of urban economy development.

## 2 - Literature review

The issue of development of city economy is resolved in the works of Ukrainian and foreign scientists: A.E. Achkasov, P.T. Bubenka, N.V. Vasilyeva, V.M. Heyets, S.I. Doroguntsov, O.V. Dymchenko, V.I. Lohvinenko, G.V. Kovalevsky, A.V. Krushevsky, Y.M. Mantsevych, V.A. Onishchenko, S.Sh. Ostanina, V.P. Reshetylo, V.I. Torkatyuk, L.M. Shutenko and others. Theoretical and methodological issues of development and implementation of strategies are proved in research: I. Ansoff, Z.S. Varnaliy, G.P. Dombrowska, P. Drucker, H. Mintzberg, T.V. Momot, G.V. Nazarova, M. Porter, I.M. Pisarevsky, V.I. Serhiyenko and others.

It is a particularly relevant issue to optimize housing management based on positive structural shifts of sectoral, spatial and functional systems, restoration and strengthening of effective regional cooperation, interregional and inter reduce disparities, rational use of resources, development and use production and economic potential of urban management and others to ensure the efficiency and effectiveness of housing management business.

It should pay attention to theoretical approach, proposed by a group of authors (S.I. Doroguntsov, P.P. Barshchevski, and B.M. Danylyshyn) who proposed to consider housing and communal services economy as a multilevel system which covers various territorial and spatial complexes to management of public water management and improve the efficiency and effectiveness of its operations (Dymchenko, 2009).

V.I. Logvynenko expresses the similar point of view. Considering utilities the scientist identifies the following area that will improve governance in this sphere.

Some authors focus on the need of appropriate indicators and modeling processes occurring in the housing to increase the level of control the operation of housing and communal services. Thus, A.A. Evseeva proposes to use the forecasting methodology of urban economy development by the example of the Kharkov region (Rayevnyeva, 2006). She has developed appropriate models to achieve that: linear, logarithmic, polynomial, degree, exponential. In addition, A.A. Evseeva proposes to clarify the forecasting perform to do multivariate cluster and correlation analysis, which, according to her point of view will improve the efficiency of housing and utilities.

In the sphere of housing and communal services of A.P. Homiak indicates the need to create new specialized organizational and management structures that will create conditions to increase the results of the utility companies' business (Aniskin, 2009). However, this approach is controversial in nature, because the system of housing and communal services a significant number of organizational departments are

created and operate, some of which are the rudiments of the Soviet system (e.g. housing offices), other so-called "new" organizational departments which have been formed recently (the society of condominiums). It should be noted that their business is characterized by low efficiency (housing offices) and development (the society of condominiums). Thus, an important task in the sphere of housing and communal services is to optimize the existing management system, improve the efficiency of their operation, and control their activities and others.

As a result of synthesis of theoretical approaches it is found that in modern management of the municipal economy research Adidas big part of attention focuses on program of urban economy, the use of scenario approach to the operation of utility companies, the formation of the basic principles of the municipal economy (historicism, unity, politics city building and its components, complexity, sanitation of ecological environment, priority, variance, objectiveness of urban economy functioning), the determination and improvement of the performance of the economy.

It is founded out theoretical and methodological states for the development strategy of urban economy in researches of scientists and professionals. However, it is still unresolved question of the implementation strategy at urban enterprises, development of appropriate mechanisms for its implementation, taking into account the interaction with customers, suppliers, public authorities and other stakeholders.

### 3 – Methodology

In the European Union there are formed several models of housing and communal services. First - English, which provides full privatization of utility facilities. Second - Germany, which provides investing companies and organizations in the industry, but the main shareholder is the municipality. The third model - French, combination of municipal ownership of municipal economy and management by the private sector under long-term leases and the total investment agreements (Afanasyev, 2003).

In domestic municipal it is suggested to use a mixed model that takes into account the German model where municipalities are important, and the French model, which received widespread use of private sector in the housing sector. However, examples of privatization of state property in the domestic practice in most cases were negative, indicating a questionable use of the English model in housing.

It is considered experience of housing and communal services of developed countries using the methods of system analysis. Based on the results of the analysis it should be indicated that in most European countries municipal infrastructure is not transferred to private ownership, it remains municipal, which is operated by private companies under con-

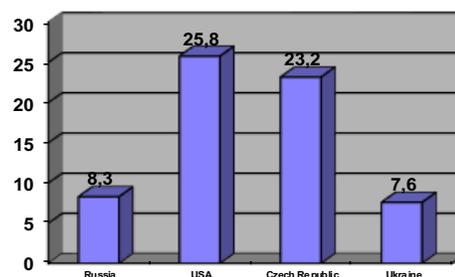
tract. In particular, in France, objects of housing and communal sector are under municipalities, which are responsible for development of utilities and service quality. In addition, the legal regulation of housing and communal services, setting standards carried out by the state. A contract concluded between the municipality and the operational company where future rates are defined as services provided in (Dymchenko, 2009).

In addition, other countries created organizational structures that contribute to the development of market relations in the sphere of housing and communal services. Thus, in France there are syndicates, in Finland there are corporations. Such experience exists in Ukraine the society of condominiums and homeowners' associations and housing co-operatives. However, experience in implementation of the society of condominiums in the domestic housing and communal services are not systematic and differ only in special cases that hamper the development of market relations in the presented area. In addition, we believe that the development of these associations is hampered by local authorities, as they lose their monopoly on the market of housing and communal services, and the lack of professional management that will ensure the management of the society of condominiums.

### 4 - Quantitative analysis

Of particular importance in the provision of utility services is tariff policy. The fate of paying utilities, including costs of services for countries: Ukraine, Russia, the USA, the Czech Republic provided graphically (Figure 1).

**Figure 1 - Share of household expenditures on housing and communal services (2013)**



As shown on Figure 1, the fate of Ukraine household expenditures for housing and communal services of countries represented is in last place. In addition, the share of national household expenditures for housing and utility services is less than this level

of households. However, the economy last state has energy that can adjust for housing and communal services. It should be pointed out that domestic households are far behind the fate of payment of utility services compared to the US, the developed capitalist system, and the Czech Republic, developing economies.

The data indicate that in the developed countries much attention is paid to the development of housing and communal services increase the housing quality and increase the services quality for which customers have to pay quite high. However, with subsidized nature of utility services, low solvency of the population, there is a shift in priorities of the domestic housing and communal complex of the so-called "survival." Also, it should be noted that total domestic consumption expenditure of households in 2013 up 90% of total costs that confirms the conclusion of the low solvency of the population of Ukraine.

It should be noted that during the 1999-2013 we could see the decline in the share of expenditure on housing services in the structure of total household spending, and changes in this index had a wavy character. However, it shows the dynamics of low payments for utility services in comparison with other represented countries.

The peculiarity of the modern development of housing and communal complex of developed countries (e.g. USA, UK, Germany, Japan, Sweden, France, etc.) in terms of the organization of utility structures is the development in this area market economy privatization on the base of housing communal sector which took place during the 80-90 of last century.

In these countries it started from the principle that state-owned enterprises in the housing sector - is in most national commitments than national property. The development of private enterprise based on competition in this area can increase the quality and efficiency of the housing and utilities sector. In addition, the proposed system of organizing work of utility companies, local authorities act as a regulator and organizer of service, the possible use of municipal enterprises, which, for example, can collect and remove garbage and others. For business of housing and communal services in developed countries, special attention is focused on the creation and use of appropriate contractual framework. In this context, they are characterized by:

- concluding inter-territorial agreements between administrative and territorial structure and higher power structures (for example, in the US the locals "City" conclude Adidas treat with state governments);

- contracts with private enterprises, particularly in the transport services;

- franchise agreements, in which the interaction of local authorities and private companies that have complete economic independence when they are making payments to the local budget some funds (10.5% of the revenue) with the possible participation of local authorities in the management of the present-company (Dymchenko, 2009).

When utilities are developing it is necessary to create conditions for the growth of profitability of these entities. In this context, it should be pointed out that pricing policies presented in the area carried out by the authorities under the principle of meeting social standards against economic feasibility. An important element of the analysis of the functioning of housing and communal services is the payment ability of the population for housing and communal services.

According to the State Statistics Committee of Ukraine in 2013 population of the country paid for housing and utilities 35.8 billion. (97.8% of assessed during this period amounts), which indicates the creation of unprofitable businesses by increasing receivables (Figure 2).

**Figure 2 - Status of payments of Ukraine's population for housing and communal services in 2013, mln. UAH [Official site of the Interstate Committee of Statistics**

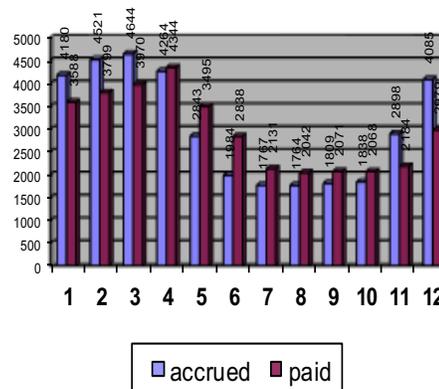
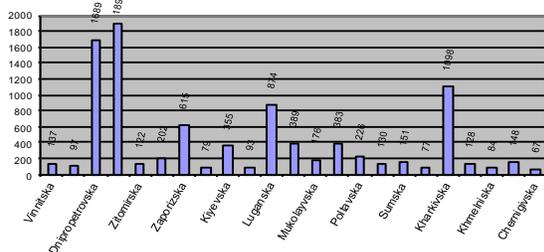


Figure 3 presents data of payment level by the population for housing and communal services in 2013 by region. Consequently, in 2013 only 6 regions (Zakarpattya, Lviv, Odesa, Poltava, Khmelnytsky, Zhytomyr region) observed excess payment services 100%, which reflects not only the current funding of services but also the repayment of past debts.

**Figure 3 - The level of payment for public utility services by 2013 in regions of Ukraine [Official site of the Interstate Committee of Statistics]**



Among the regions the highest level of payment for housing services is observed in the Odessa, Zaccarpathia, Lviv and Khmelnytsky regions (102,8-100,7%), the lowest is observed in the Crimea and Dnepropetrovsk and Lugansk regions (94,1-95, 3%).

The analysis determined that for the development of housing and communal services it should implement appropriate strategies that are implemented within the framework of actions aimed at: reducing debt for provided housing and communal services, ordering benefits of housing and communal services, involvement of qualified personnel to ensure operation of utilities, the implementation of energy efficiency programs and effective use of resources, fixed assets and networks, conducting timely repairs, compliance with current legislation.

## 5 – Strategic aspects of the housing and communal sector in the city economy

Considering the development of housing and communal services as the interaction between the individual functional structures, it should be noted that domestic scientists proposed ways and tools to ensure their effectiveness: determine the essential characteristics of housing and communal services; utilities the specific of HCS according to its social orientation and multilevel relations and connection between stakeholders operating in the housing and utilities sector; use tools of systems analysis; implementation of the principles of systematic, structuring, proportionality, integrity of housing and communal services; creation of information basis for the reform and development of housing and communal services.

An analysis of existing research found that the development of housing and communal services of Ukraine should be considered as a system combining individual structural elements of different hierarchical levels from regional to local (establishments of the

first-order are regional utilities, the second-order establishments are link housing administrative districts; the third ones are local housing settlements, i.e. cities, villages, townships).

To implement the mechanism of reforming and development of housing and communal services it is used methods and tools that interact with each other, solving tasks with target setting, taking into account the social and economic environment and internal transformation utilities.

To reform and improve the development of housing and communal services it is appropriate to provide an integrated system of social and economic, organizational and managerial relationships, which are oriented to achieve optimal spatial structure of the sphere of management, rational use of borrowed resources in meeting the needs of the population to increase their territory living standards.

In addition, to improve the functioning of housing and communal services it should take into account the level of relations between stakeholders to eliminate regional disparities and imbalances in development utilities, ensure the growth of the quality of utility services and others.

To ensure the development of housing and communal services it should be considered a significant territorial fragmentation of housing facilities, the availability of substantial farm building, forming their own laws of supply and demand, especially the complex relationship between enterprises and state agencies and local governments, dependence on the industry a significant number of social and economic factors and the processes occurring in the country, as a whole, and at the regional level, particularly infrastructure, which affects the activity of enterprises complex.

As a result of summarizing the experience of developed countries and taking into account the characteristics of utilities it should consider the following directions of development of domestic enterprises Housing:

- active implementation of housing management;
- use a mixed model of management of enterprises of housing and communal services, taking into account the provisions of the German model with importance of municipalities, and the French model, which received widespread use of private sector in the housing sector;
- implementation of energy supply programs at the enterprises of housing and communal services;
- use of modern information and industrial technologies to utilities;
- introduction and development of public and private partnership in housing and communal services;

- attract private investors and create a competitive environment with reduced pressure state authorities;

- improve the quality and level of professionalism of personnel in enterprises Housing;

- public involvement in the management of housing and communal services, separation of functions of the customer, monitoring facilities of the complex.

This leads to the necessity of structural reforms that would ensure the creation of a new economic model and exploitation of housing stock, its reliable and high-quality service in the interests of consumers. Otherwise, the cost of housing and communal services will grow rapidly against the background of reducing its reliability and quality.

The development of the market, socially oriented economy requires the use of "new" approaches to development and implementation of strategies of functioning utilities to achieve long-term goals, based on principles of aim-orientation, complexity and consistency, effectiveness and efficiency, balance and harmony, continuity, flexibility, adequacy, etc. . For the development and implementation of utilities strategies it is necessary to identify sources of this sector funding, including by attracting foreign investment. In this area it is noted the low activity in utilities.

Thus, in recent years implemented a few projects: TACIS program of the European Union in Ukraine "Sustainable Local Development in Ukraine"; a joint project of TACIS and UNDP "Local Development oriented on the society"; Project of the German Society for Technical Cooperation GTZ «Remediation residential building»; Project of the German Society for Technical Cooperation GTZ «Reconstruction of the historic center»; a joint project with the Embassy of Poland in Ukraine "Implementation of European standards and restructuring of housing management in Ukraine, using the experience of Poland"; a joint project with the World Bank project "Water supply and sewerage in Lviv"; a joint project with the European Bank for Reconstruction and Development of the project "Development of water and sewage in Zaporizhzhya"; a joint project with the World Bank "Urban Infrastructure"; with the European Investment Bank project "Development of water and wastewater in Mykolaiv." As a part of the joint projects it is realized project which have tactical quality and aimed to work with specific objects. However, a comprehensive investment program has not been implemented because foreign investors do not have full confidence in the existing system of housing and communal services.

In recent years, it has been developed and implemented organizational structure which is aimed to improve the investment climate and enhance the attraction of foreign investments in the housing and utilities sector in Ukraine. In this context, special at-

ention is focused on the formation and use of the information base for potential investors who cooperate with the housing and communal complex.

The importance of the development and implementation of enterprise development strategies of housing has development and implementation of activities related to international technical assistance, using grants from international organizations functioning in the sphere of implementation of housing and communal services of joint projects.

According it is necessary to transform the existing organizational management system in this area to experts, to develop and implement a strategy of development of housing and communal services. Five-year management system development strategy of housing can be used: level 1 - development, regulatory and methodological support and monitor the implementation of the state program of reformation; level 2 - specification of state programs measures, planning, organizing and monitoring their implementation in cities and districts; level 3- planning and implementation of to reform and reorganization measures of housing and communal services of the city (district); level 4 - the planning and implementation of development strategy; level 5- planning and controlling projects of reformation.

Thus, considered tools allows to develop and implement a strategy for the development of housing and communal services, which is oriented to increase efficiency and effectiveness implementing of market conditions, the competitiveness of utility companies, the use of "new" organizational forms, harmonizing the interaction with stakeholders.

It is necessary to improve the organizational structure of the relevant division of powers to implement the development strategy for the utilities and it is necessary to format information and analytical support to make informed management centers. When the functioning utilities are functioning it is proposed to overcome the crisis to focus on reducing dependence on subsidies and overcoming poor financial condition, reduce high expenditure, providing economic incentives to reduce costs of production and provision of utility services, forming a competitive environment, increasing technical readiness of fixed assets , reducing loss of energy, water and other resources (Andreychuk, 2011).

Identifying the place and the role of utilities and analyzing of organizational and economic problems of management and development of methodological principles allow proving that the success of enterprise management utilities concept is available using the methods of program-oriented management. It should take into account the role of the state in the management of public utilities. It is required the introduction of modern legal mechanisms that would be able to provide stable functioning of the economic system to ensure state regulation of the functioning of housing

and communal services. The important role of such measures includes regional management, especially regional state administrations and local authorities which is aimed to achieve strategic priorities.

Thus, the formation and implementation of enterprise development strategies housing includes features and directions of state regulation provided sphere within which the main attention is focused on the further improvement of legal security, decentralization and deregulation of the industry, the use of appropriate mechanisms and tools, attracting private capital, identified areas of financing proposed programs of industry development, determining social, economic, environmental and other standards and enable compliance, innovative forms, methods, models and tools for utilities.

Manageability and effectiveness of strategy implementation is ensured by the formation of information support, including: • formed system of collection, coordination and use of statistical, analytical, regulatory, program-planning and forecasting information for decision making; systematic monitoring of a wide range of indicators of social and economic development and the environment; openness and transparency of local authorities and local governments, including regular public information about the main problems of social economic development, solutions and prospects of making informed management decisions; • active involvement of the public and NGOs in the preparation, discussion and resolution of social and economic development issues.

The strategy begins with the adoption of its final version. The choice is one of the most important economic problems and it arises in almost any economic process of management, but it acquires special importance in problems of strategic management. It is connected with the wide variability of strategic choice, and with a significant impact on the organization's strategic course of the final result. Variants of making solutions have certain parameters that describe their content and effectiveness. The most important economic parameters are to get the effect and costs. As an effect it is considered possible outcomes of housing and municipal services (level of consumer income, profit, achieving the set goals, etc.). Costs describe the required amount of resources: financial, human, material, information and others.

The development of evaluation and control system of the strategic decisions implementation has particular importance in implementation of the strategic plans. Setting up a permanent monitoring mechanism should be done through the administrative monitoring that gives opportunities not only track the progress of transformation in the lives of planned activities, but also to regulate effectively the process of eliminating possible deviations from the desired mode of the system operation. The main problem which is solved in the development strategy of housing and communal

services, it is to enhance its strong position limit weaknesses in order to take account of changes in the environment and use available resources at most.

According to the strategic development of housing and communal services, the choice of a rational strategy of their behavior may be a justification of intensive or extensive ways of development. In the target block strategy it is advisable to use the concept of improving the quality and expanding the range of provided services in most cases, as well as increasing the efficiency of management utilities.

## 6 – Conclusions

It can be used scenario approach to develop strategy of housing and communal services to use tools and enables to select the scenario of housing and communal services in the future, according to the external and internal environment and the functioning of housing and communal services. In general, the strategy formation is an important management function, which includes the process of selecting targets and their achievement trends that affect the development of utilities. For development strategy of utilities it is necessary to take appropriate steps. In particular, on the first stage it is formed objectives, parameters, important issues which arise in the development of housing and communal services. On the second stage it is implemented measures to form the information and analytical support functioning of housing and communal services.

In this context it is important completeness, reliability, accessibility of information, taking into account the interaction with all stakeholders who operate in the field of housing and communal services. On the third stage it is made the analysis of external and internal environment in which housing operate. On the fourth stage the prediction of possible development options of utilities, it is built scenarios.

On the fifth stage it is developed mechanism of implementing the development strategies of utilities, which must have the following characteristics and attributes: target oriented mechanism which is aimed to ensure to implement and to realize the development strategies in Housing enterprises; functional orientated mechanism to implement the strategy of housing and communal services development, which ensures compliance of the relevant objectives and directions for achieving a specific purpose; determining the sequence of the structural elements of the mechanism of housing and communal services development strategy; forming feedbacks and create opportunities to respond to the emergence of disparities and imbalances which arise within the present mechanism; assessment of indicators which characterize the quality of the implementation mechanism of implementing the housing and communal services development strategy and others.

As a result of the research aimed to improve the development and implementation of enterprise development strategies of Housing it is grounded theoretical and methodological approaches to determining the characteristics of housing and communal services, which are in the territorial fragmentation of housing and communal services, formation and application of tariff policy, its motivation and economic feasibility, availability of substantial domestic capacity, social orientation utilities, lack of competition and monopoly position and so on.

As a result, the systematization of theoretical statements according to forming the ways of increasing efficiency and effectiveness of the housing and communal services functioning it is improved the necessity to improve utilities' development strategies, the regulatory framework, implementation of fiscal decentralization, increase the accountability of the executive authorities and local governments for the development of these enterprises and a transparent system of relations of local authorities with management structures of the areas of development and introduction of indicators and regulators of the state and development of housing and communal services. As well as it is improved the ways of development and implementation of the housing and communal services development strategy, which include: the formation of goals, key parameters of important issues which are arisen in the development of utilities, the implementation of measures to create information and analytical support, analysis of external and internal environment, identify trends and areas of financing development, characteristic key factors protect points of view, forecast the possible options of housing and utilities development; the development of activities which provides the respond to identified trends and features that characterize an appropriate scenario, measures to develop algorithm to implement the

mechanism to form the strategy of development utilities.

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