

MOVING REGIONAL ECONOMIC POLICY MODERNIZATION AHEAD: SYSTEMS BASIS FOR ORGANIZATIONAL AND DEBLOCKING MECHANISMS IN PRESENT-DAY UKRAINE

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Abstract

The paper objective is to provide rationale for the systems basis for organizational and deblocking mechanisms of a discrete regional modernization process. Basing on methodology of systems analysis, the paper offers an author's conceptualization of a systemic regional economic policy modernization in the present-day Ukraine. The author's original contribution is his profound idea of the modernization process being discrete, non-linear, and following a changeable trajectory. These properties of the system have influenced considerably the interpretation and reevaluation of the current state of the modernization process and its "tension lines". Starting out from the properties of "system material" and the author's general concept of the regional economic policy modernization in Ukraine, the paper identifies two actual mechanisms for ensuring stability of a desired modernization trajectory – a mechanism of modernization process organization, and a mechanism deblocking the process of modernization. For each of them, the reasons for existence and "tension lines" are determined and rationalized. Finally, an important conclusion is drawn that the proposed logic of analyzing the mechanisms to support regional modernization can be applied both in Ukraine and in other countries, providing a way to purposefully affect the procedure and structure of governance mechanisms in accordance with the set priorities.

Keywords: regional economic policy, systems approach, mechanisms, Ukrainian modernization

JEL classification: O38, R58, R50

1. Introduction

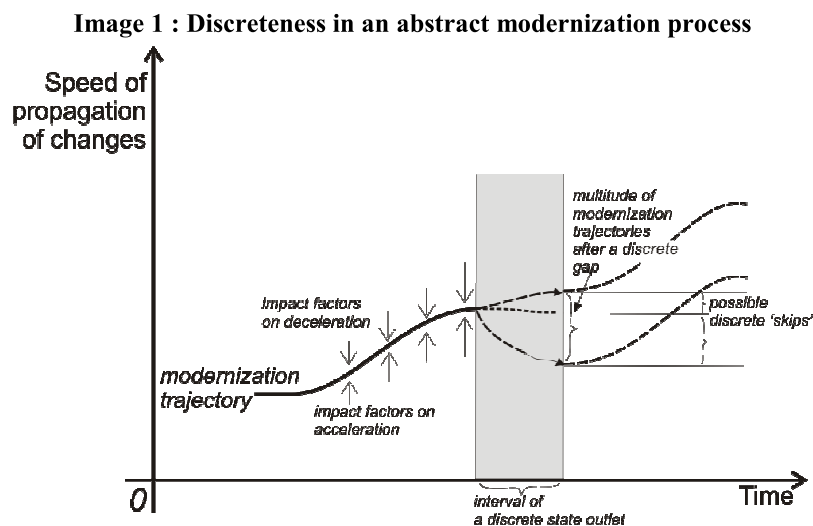
Problems of renewal of sub-national economic policy have become the object of economic and regional studies relatively lately after shifting beyond the pertinent scope of the national governments. The vast majority of these papers were presented since early 1980s. Most of them were caused by rapid economic and political development inside the EU as well as growing globalization and competition between countries, major cities and odd regions. Rethinking a new role for regions as well as levels of economic and spatial organization of supranational entities has caused new scientific theories (Markusen, 1996; Sapir et. al., 2004; Worldbank, 2009), numerous academic discussions between teams from reputable organizations (Barca, 2009; CAF, 2010; OECD, 2009 and others) and certainly generated some whole new generations of regional and investment policies in the countries and economic blocks (like EU and MERCOSUR). The most common mainstream in such research can be fit in a logical chain "from a macro-stability - towards regional development alignment - towards disclosure of unused regions' potential". Eventually, a sub-regional-level policy is began to be increasingly considered beyond a national "fairway" absorbing the expectations for greater, increasing regional subjectivity (Pike, 2006; McCann, 2008), and the official motto "Europe of Regions" is so fine confirmation for this.

But modern challenges faced by the most of countries on the European continent - from the ultra-right rhetoric and the Brexit to Asian migrants and painful renewal of all the public institutions in modern Ukraine and Georgia – indicate that the old habitual recipes are likely be ineffective again and again. I think, now it's time to look into how to ensure succession and steadiness of advance towards desirable changes, to reconsider a structure of the governmental and sub-national (regional) policy as a very complicated system of numerous relationships inclined to persistent changes.

One of possible answers to this is to look at policy modernization as on a discrete, intermittent process of generating new systems capable to more definitely move along a given trajectory.

Clearly, any development is an interruption of a steady state due to emergence of new phenomena, disturbance of a static equilibrium. Since modernization brings about social conflict between traditions and innovations, it can be regarded not as a linear process, but as a discrete one. Thus, modernization preconditions “a situation of unsteady equilibrium i.e. a sort of balance of forces of its supporters and opponents” (Medushevskiy, 2014 : 11) giving rise to a “reformer dilemma”, which determines an optimal development of social processes.

The dialectics of modernization changes with regard to its discreteness allows a more profound understanding of modernization processes abstract structure. At the moment of the “unsteady equilibrium” destabilization, that is misbalance of influencing forces, a modernization trajectory is shifted along the propagation velocity axis. It is the point, prior to which endogenous contradictions between factors of different states – figuratively speaking “traditional” and “new” – are to manifest themselves most particularly (Image 1). In its turn, the process of a discrete change of the system states is affected by a change of “dominating generations” (Maievskiy, 2011), or predominant combinations of factors (technologies, cultures).



Source: the authoring

Practically all the developing countries, in order to save time and extremely scarce political and financial resources, engage in “catch-up modernizations”. These do not appear as evolutionary processes, but rather as “destruction of trends established in the course of institutional and technological changes” (Martynov, 2010 : 21). It means that modernization of this kind is characterized by mostly discrete shifts, also followed by knowingly discrete and controlled adaptation changes of institutions, including political ones. That is to say, we discern at least two manifestations of discreteness that may be asynchronous, which adds risk to public administration. However the key point is that both of them manifest a controlled discrete process.

Definition of key notions

Before proceeding to discussion of the conceptual issues, it is necessary to define the key specific notions,

– by modernization, a “growing capacity for social transformations” (Roxborough, 1998) is meant;

– by a regional economic policy, we mean a socio-economic policy of multilevel development of a region and its territorial communities, which includes a system of integrated and coordinated plans and actions of local development subjects, aimed to reduce internal economic inefficiency and social inequality;

– by regional economic policy modernization, we mean “qualitative controlled social transformations of complex administrative and economic relations at the regional and interregional levels that manifest themselves in a different way depending on the system of values and priorities under specific historical conditions” (Dunayev, 2015 : 19).

2. Methodology

In this paper, a methodological research chain will embrace a logical passing along two working hypotheses.

Hypothesis 1. On the sub-national level, a public relations modernization provides a transition from a stable, regular development of the project towards development and dissemination of values and sustainable balance between the interests of the local community, the state and local business. A messaging with clear reasoning along this assumption would allow moving to the next, purely managerial assumption.

Hypothesis 2. A transition mentioned above in the first hypothesis, needs some specific management mechanisms, namely some mechanisms for organization of modernization processes. What is their specificity, and what their administrative nature? The point is a comprehensive vision of sub-national governance inevitably meets with at least two fundamental questions of "what are their purpose and objectives?", and "what does prevent to do it as before?". Obviously, maintaining a current status-quo is cheaper and easier in terms of political capital and of ability to simulate reform by ruling power... However I think that the answer is, first, in a historical moment when the Ukrainian regions have got opportunity to reform their small "economic universe" and, secondly, in accumulated "clots" in "vessels" of social relations. It's like crucial "tension lines" that defines a special nature of those ways of governance at the sub-regional level.

Unveiling it determines a methodological logic of this paper.

An apparent complication to research it along the first hypothesis needs some additional methodological refinements. It is concluded in three important methodological areas.

Firstly, the properties of discrete processes are the starting point. So, the cybernetics theory shows that, based on a “possibility of changing process control strategies” criteria, discrete processes are subdivided into controlled and uncontrolled ones; based on predictability of process behavior, into stochastic (probable) and determinate; and by process flow time, into unlimited, time-limited, and instantaneous. Hence, an ideal task of the process of administrative relations modernization is maintaining its controlled nature, determinateness, and time-limitation.

Secondly, a theoretical projection of similar processes on time-boundless renewing the way of public-administrative organization makes the systems approach application feasible.

Along with the proliferation of systems analysis to solve applied problems and to establish somehow a kind of standardization of procedures to implement it, now there is a variety of methodological approaches to run this analysis that is reflected in two main approaches, namely, the "systems approach" and the "management approach". In general, their distinction is in emphasis to study: the first one focuses on processes into an object of management (Chelleri et al., 2015; Fiksel, 2006; Arnold & Wade, 2015; Pearson & Pearson, 2014), the second distinction focuses on the way of organization in a subject, in a regulator (Pollitt, 1990; Cendon, 2000; Holmes & Shand, 1995; Lopez-Portillo et al., 2016). A choice in favor of a proper approach depends on a distinction in regulating procedures, as long as the "systems approach" determines a systematic design of an object, but the "management approach" stipulates for a systematic design of a way of management implementation, that then will acquire its expression in specific methods and tools of analysis and mechanisms of public administration. Notably, the various approaches have their drawbacks. In particular, the systems approach requires special tools and subjectivity-oriented procedures when setting the aims and when determining difference between natural (evolution) and technical (development). And vice-versa, the management approach requires deployment of special procedures to formalize long-term planning and to eliminate excessive subjectivity in decision making. And avoiding these shortcomings is very actual task for governance in terms of transformation processes in Ukraine. This paper will be based on the "systems approach"

because of it's needed to keep a right focal point on regional (sub-national) governance instead of micro-level of an organizations or institution.

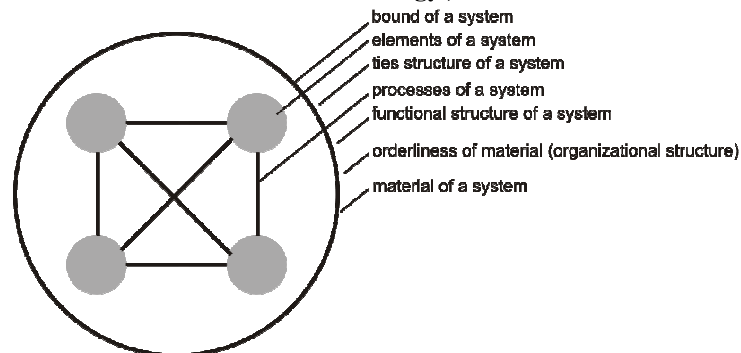
In the recent years, the systems approach has become almost a universal requirement to researching any sort of problems. The general theory of systems analysis gives an apt answer to this by explaining the properties of a system:

- a) a system is integral, all its elements being interrelated and united;
- b) a system is divisible, discrete and can be subdivided into homogeneous and heterogeneous elements;
- c) a system is multiple, since the state and behavior of any of its parts are unique, and a mere totality of its components does not describe its general quality.

Applying the systems approach to study of regional modernization processes in sub-national policies, some authors (Sukhodolia, 2005; Shchedrovitsky, 2003; Maddens & Swenden; Hooghe et. al, 2010) indicate a need to reconsider the factors of subjectivity and process dynamics. It's possible by distinguishing opportunities to regulate them (e.g., regulating the processes on their directions, intensity as well as parameters) and by fostering them (using object's own volition to "move spontaneously") (Hooghe & Marks, 2016; Burgess, 2006). Notably, the "governance" is run in full subordination of an object to a subject (organizational and administrative subordination, legal regulation of activity) and the "management" covers "own initiative" of a controlled object and should consider its aims and incentives. That's why the mechanisms of governance in modernizing sub-national economic policy should include legal regulatory tools and incentives (management) to improve the efficiency, flexibility and integrity of a sub-national economy.

For the present paper, the systems analysis methodology of G. Shchedrovitsky is chosen as the basic "systems approach" methodology to imply and to enable more clearly the process, structural, and functional components of systems analysis (Shchedrovitsky, 1982, 2003) (Image 2). This selected approach involves description of a managed object as a system through its components: bounds of a system, elements of a system, ties structure of a system, processes of a system, functional structure of a system, orderliness of material (organizational structure), and material of a system

Image 2: A model of systems representation of a controlled object (by Shchedrovitsky's methodology)



Finally, the third point is the peculiarities of tracking the wishful transitions along different statuses. There are two core assumptions:

1) *Tracking trajectory along conventional statuses.* There is a complicated dialectical tie between administrative institutions development and social relations development (e.g., in local communities). The administrative institutions development is a reflection of society, is a source for organizational strategic development, as well as it's believed as an additional management task. Applying an analogy with the social "roles-statuses," that are commonly used in sociology (Katz, 1973, Masolo, 2004) and in behavioral leadership (Vroom, 1984; Fielder, 1967; Hollander, 2009; Avdeev, 2016), we would then more clearly describe a discrete modernization transit for the purposes of sub-national governance. A particular link with a "stuff" and a "structure" of a system, that are proposed by some methodologists of system analysis theory, is playing an important role here. And it is logically connected with a following assumption.

2) *A discrete alternation of internal processes.* Its' known, that a discreteness is expressed in alternation of internal system processes of evolution (emancipation) and transformation

(qualitative jump of a system). It is associated with the phasing characteristic: it is irreversible and consistent, that is it's impossible to "jump over" a separate development stage but it's possible to dip it "below." Each next stage has its more complicated and differentiated structure where previous qualities can be displayed (a "layered model"). A new stage has a new dominant subsystem stipulating newer reordering in relations within a system. Each stage is characterized by its unique structure and condition, by its essential elements, by a development strategy and by a dominance of cultural, social or technical-instrumental subsystems. A regional evolutionary development and its policy is possible only when the local elites, individuals, pressure groups and all organizational units are in a constant process of learning, of perception the new.

3. Results

Using the George Schedrovitsky's methodology, a detailing the components of regional economic policy that is essentially modernized, has yielded some results as below.

Decomposition of policy modernization according to systems analysis elements

System Bounds. The bounds of a system can be varied dependently on a management entity's choice and its capability (or desire) to influence the selected objects entirely (Ackoff, 2004). Unlike operational management, when a managed object is predetermined and provisionally unchanged, a policy modernization requires revision and readjusting of its object (referring to a discreteness property). During a quondam plan-based economy, a productive industry acted as an object of development management. Nowadays on a background of a three adjoining reforms kick-off in Ukraine – the administrative-territorial system reform, the local governance reform, and the state regional policy reform – modernization of regional economic policy assumes a truly new quality of a combined economic, spatial, and governance development. Here, the authorized persons of governance subjects fall into an inertness “trap” of regional approach. The thinking of regional authorities, naturally, tends to cover the administrative boundaries of their region, since those boundaries delineate their area of responsibility. The assumed powers and thinking within their constraints block a farsighted strategic perspective and project activity at the macro- and interregional levels at least because any idea of cooperation between regions or their parts is usually rejected in view of a “natural effort” to avoid an excessive complexity. Yet, large investors are always attracted by an open scope for market coverage and large scale. Instead of a true socio-economic and socio-cultural polycentric zoning, the Ukrainian regional state administrations and regional councils (local parliaments) still tend to recognize a formal administrative and physical-geographical territorial zoning, which is very loosely correlated with economic structuring. Lastly, region-bound thinking is not inclined to create incentives for networking and cooperation with other regions, administrative districts, or consolidated communities, for a common “pyramidal” structure of management and statistical recording does not regard other structures as a norm.

At the level at least equal to that of a regional center or a big interregional center (e.g. the biggest Ukrainian cities as Kharkiv, Dnipro, Odessa, Lviv, Donetsk as potential prototypes like the EU NUTS-1 macro-regions), it is possible to redesign the “viewing system”, since it is here that opportunities for networking and cooperation of resources, localized in different regions, become noticeable. After all, it is from here that the problem range of trans-border cooperation can be seen with a fair degree of detalization – compared to a discerning perspective that emphasizes capital cities. The task of forming new institutions of economic and spatial development, in the first place those of territorial planning, has been provided for in the vertical structure of public authority, and built in the regional governance frame by the State Strategy of Regional Development up to 2020, although that strategy has not been implemented yet.

The logic of the above-said allows us to proceed to a systems representation of **system elements**. These are formed by identification and description of the environment with its specific behavioral characteristics (features and objective laws) in a multifactor environment. For systems analysis of regional economic policy modernization under the conditions of

integration processes, four basic elements of a management system have been selected: public administration, economy, space, and institutions (Table 1).

Table 1: Elements of regional economic policy modernization and their properties

Elements	Essential specification	Attribute properties	Functional properties
1	2	3	4
Public administration	The state administrations, local councils, political parties, methods and practices of decision-making	Sphere of public interest with forming of a power and power implementation	Principles, forms, methods and tools of social relations, political and regulatory processes of acquiring goods
Economy	Business entities, local institutions and economic traditions, industrial and cooperation links	A manufacturer of tools and resources to meet society's needs and human needs	Quantity, quality and conversion of activity resources, ways of sharing resources
Space	The way of production forces organization in areas, the networks of localized settlements, infrastructure and natural resources	One of the forms of substance being that is inseparable from time	Source of natural and human-made resources; source of challenges for governance relations updating
Institutes	Resistant forms of people's common life	A public system of rules and of human relations	Adopted and not-adopted system of rules, rights to resources, resource concentration, the effects of blocking

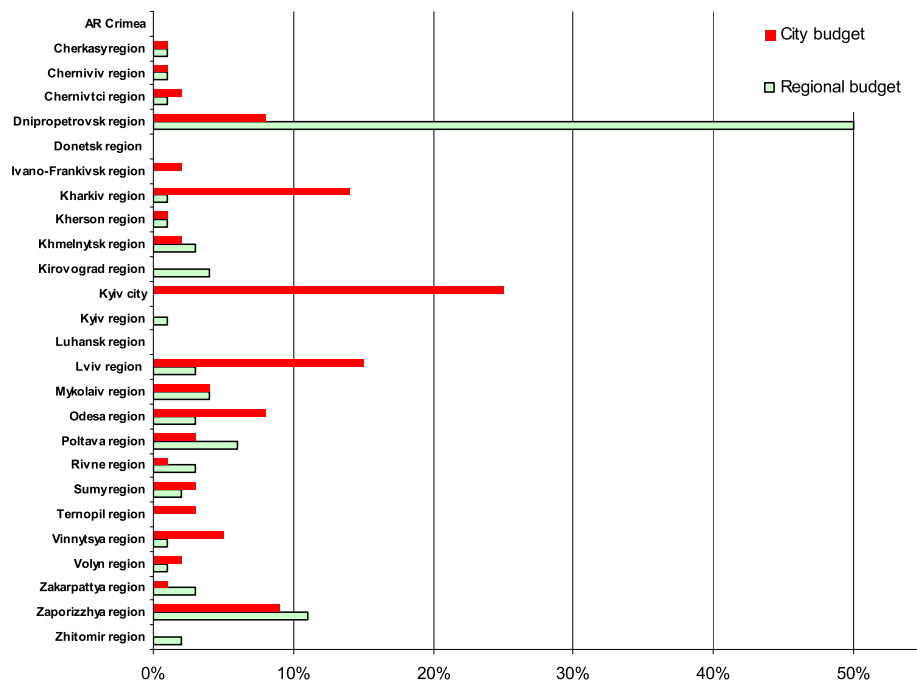
Source: the authoring based on (Shchedrovitsky, 2003; Sukhodolya, 2005).

This choice of system elements is explained by: 1) a growing capacity for resource management and economic self-development at the sub-national and local levels; 2) social life democratization and authorities' accountability; 3) a gradual replacement of customary economic practices with resource-saving ones, application of project and procedural approaches to administration and business.

System processes. In 2014-2015, Ukraine launched, in rather general terms, the processes of new regionalization, creating a new liberal space for public-administrative, socio-cultural, and economic specificity of its regions. As contrasted with the Soviet and transition times, the regions of today have to compete economically with one another. The competition necessitates a natural process of identification of internal capacity and relative self-sustainability of regional economies (Åslund & Djankov, 2014). This development vector on no account means political or economic sovereignty, or isolation from the macro-environment and rupture of meso- and microprocesses; on the contrary – it is a chance to even their significance for economic development. For many years now, there exists a situation in Ukraine, when regional environments are subordinated hierarchically to the national level practically in everything, particularly – in resources. Financial provision of local governments' development capability relies specifically on development budgets, the most advantaged being those of the biggest cities whose fiscal capacity exceeds that of the rest of local budgets manifold (Image 3). There are many reasons for this situation, the major ones being different internal possibilities of filling budgets and different capabilities to use all legal ways for budget replenishment. However, on the one hand, an open economy's macro-environment alone creates conditions for a more intensive development, for instance, an integrative, synergetic, coordinated type of development. On the other hand – changes in the external environment call for an adequate and preferably prompt response on behalf of a

region and subjects located in it. Today, the internal factors are continuously affected by the external ones, having to adapt to changes that occur beyond their will.

Image 3: A share of regions and regional centers in a total amount of funds of regional and municipal development budgets (according to the regional and municipal budgets approved for 2015), %



Source: designed according to open-source data by the Ukrainian Association of tax payers of Ukraine, 2015

If a regional system does not react to external challenges, and its internal subsystems do not build an adequate interaction with the external environment, the result is a slow-down of regional development dynamics, with simultaneous deactivation of intensive development mechanisms. In this case a system should possess a developed or actualized property of self-improvement, responding to unfavorable factors and neutralizing them through mobilization of its own resources, and to be able to assume legal and social responsibility in its relations with its subjects. That is why the presence of the two responsibility limitations is regarded as a low level of adaptation of a regional economic system and of the relevant policy. It is a sign of the adaptation level, resulting from interaction of environments, as a basic prerequisite of modernization.

Functional and organizational structures. The next step is defining a management object's functional and organizational structures that are built on the basis of actual processes and determine the structure of an object's ties and conditions of existence. Since the main condition for modernization of economic ways is consensus of elites as to basic developmental principles (Auzan and Sattarov, 2012 : 67), and reaching that consensus means realization of a social contract idea, the key roles in the processes are played by trust and a quality social capital.

Taking a functional structure fragment of a process of developing regional economic policy as an example, Table 2 presents author's reflection on typical functions and participants with their basic interests (See Appendix 1). Also, the origin of forces influencing an object, their roles and extent to which they participate in the process with their actual scopes of authority, as well as sources of object (process) funding – usually local and state budget funds, and non-budgetary contributions of the interested parties – are important too. The functional structure of ties provides for a balance of interests option and movement along the modernization trajectory. Based on understanding the ties within the functional structure, an organizational structure of the entire process is formed, its typical actors, as a rule, being *subjects of change* (see Appendix 2), the key of which are a regional state administration and regional council. What is this role exactly? This is a challenging role of initiator, regulator

and capacity integrator of quality-driven “social transformations” (Roxborough, 1988) into complicated governance and economic relations. These relationships, as shown in Appendix 1, arise between power state authorities and local governments and business and the public, and also involving external institutions.

In practice, the organizational structure of an object is not always a management extension of its functional structure (a regulatory body is established, but its legal framework is deficient); in such cases institutional failures are common due to inability to perform the role, functions, or be of benefit for the process. Besides, within economic orders (by W. Eucken (Eucken, 1952)) stable groups of stakeholders are formed evolutionally; these groups are interested in creation and preservation of standing institutions and practices, and consequently, in blocking of innovations unfavorable for them. For example, the dominating interests of argo-holdings or latifundists who are guided by getting profits and raw materials rent from large-size farmlands, determine poor loyalty to administrative innovations of the local government reform (Gotzuenko and Gotzuenko, 2015) which causes problems for innovation diffusion, social responsibility, trust in state reforms etc.

The structure of ties of a management object. This structure shows interdependence between the objects’ elements and processes, and performs an important indicative function at the designing stage. As O. Sukhodolia notes, analysis of a management object is aiming to identify processes and detect discrepancies between the processes and types of structure (Sukhodolia, 2005). Based on literature review and on the author’s own reflection, the main conflicts and ruptures in processes, behavior, and interaction of elements (see Table 1) among themselves and with their multifactor environment are presented in Appendix 3 in a very concise form.

The Appendix 3 illustrates that most of the contradictions are also related to a problem of maintaining regions’ trajectory of development upon condition of a certain “path dependency” of relations development at all levels of governance in Ukraine. These and some other contradictions are getting increasingly noticeable in the context of lack of the Ukrainian people’s trust in the government institutions. Thus, in January 2016, according to data of Kyiv International Institute of Sociology, the Ukrainian government institutions had a record-breaking low level of the population confidence: -48.1% of trust in the President of Ukraine; -66.3%, in the government; -72.4%, in the Parliament (Ukrainian Pravda, 2016). Given a strong political will, Ukraine could eliminate the above mentioned imbalances in several years.

Essentially, most of the Ukrainian contradictions, mentioned in Table 3, are of institutional nature and thus can be eliminated in an evolutionary manner. The most advantageous experience of it is accumulated by the EU countries and OECD. Therefore, it is reasonable to group principles, regularities, and “best practices” according to the following three dimensions: spatial development, economic development, and integrated development management with international inclusion. Transferring them to the Ukrainian reality could accelerate considerably the operation of complex mechanisms of social self-regulation through realization of the systemological Wallerstein-Braudel principle. According to that principle, a society has anything that there is to exist, although mostly in an implicit form, only a small part of it being actualized. Thus, there is nothing principally new, since everything existed at proper time and can become relevant in due course. In this respect, new institutional forms of regional economic policy modernization, expedient from the standpoint of the adopted advanced experience and realization of the Ukrainian regions potential, can be as follows:

- communication and integration ‘corridors’ used in cooperation with other interested regions, including the European twinning regions. These corridors can provide for creation and accumulation of institutional and economic potential between the axis endpoints;

- new cultural communities in “bonfires of competitive ability”, which include university centers and technological clusters as sources of renewable resources of new time – culture, innovations and technologies. “Bonfires” of that sort are needed not only as deposits of ideas and skills, but also as sources of integration and self-activity, drawing into its orbit larger territories – other settlements, districts, and even regions. “Deposits” of added value and their

“processing” facilities lie in the same space. Transnational corporations are unable to occupy that niche, and that is why it needs state support;

– special state services: pre-privatization preparatory work carried out according to world standards and a guarantee follow-up of technological modernization at large infrastructure facilities of power industry, housing maintenance and utilities services, transport that are evenly allocated in the territory of Ukraine, which signalizes a full-fledged infrastructural development.

The state practice of ensuring industries’ development in the form of target programs presupposes a primarily functional territorial division of the country meant to achieve object-oriented character of the programs. The biggest centers of sustainable development or prospective centers (middle-size cities of the most advantageous or strategically beneficial location – in terms of polycentrism) are highly probable to become development zones nuclei, while their external borders are noted for a maximum effective range: up to 150-200 km along highways, and 50 to 100 km beyond main roads.

In the present-day Ukraine, a multilayer space has been formed: the physical space has come to encompass multiple objects of different subordination, which require different patterns of management, in particular by the state. In the course of decentralization, the Ukrainian state is at the very start of applying a new pattern of non-hierarchical redistribution of responsibility and resources. Basically, the government can perform the functions of a coordinator of ‘responsibility lines’ between heterogeneous political, social, economic subjects. However under decentralized governance, it is necessary to have regard to a natural spatial structure of people’s settlement, known as a ‘nesting doll’ (also known as ‘the Christaller chart’). Thus, a change of development management principles should take place at each level of a decentralized spatial structure: consolidated communities, districts, regions etc. At the local community level, neither macro-economic nor branch-oriented mechanisms are applicable; instead, economic functioning mechanisms should be applied. Similarly, at the regional level, it is important to use the principle of political consensus as to economic entities’ operation, activating or deactivating the mechanisms of regional economic policy modernization.

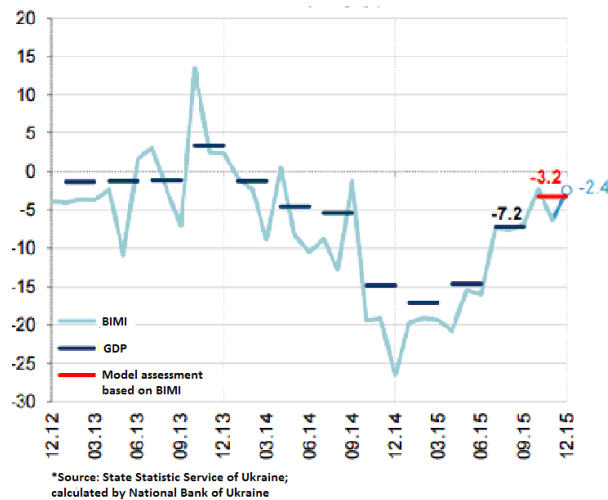
Material of a system. A current system of regional economic policy modernization exists under the conditions of idealistic and democratic change of attitude of the state and society to human rights and dignity. Ideally, this should be expressed in decentralization of the regulatory powers and improved economic interaction between the “center” and the regions, between a region and smaller entities of all forms of ownership located in it. However the Ukrainian decentralization of power in 2015-2016 became an argued and far from being popular reform that was forwarded in the conditions of lack of real alternatives, the state budget exhausted during the previous years, and scarce economic opportunities to compensate for the “reform burden” of the impoverished Ukrainian population. For example, Image 4 demonstrates the dramatic failure of the two major macroeconomic indicators characterizing increment of wealth in Ukraine and the production growth in 2013-2015. Besides the Russia’s military aggression, the past 2014-2015 years were remembered as the years of the several difficult reforms started, years of start of political and economic modernization with a huge load on the previously devastated Ukraine’s state budget.

The financial aspect of modernization is essential as it affects the system material, firstly, through increased own and delegated powers, and a greater resource capacity of consolidated territorial communities and local councils; secondly, due to insufficient institutional and resource capabilities of practically all regions, which impede their new development in the new conditions. It is also important to realize that serious intellectual and social challenges block the development too, as it proves that, apart from financial resources, the introduction of changes has to be supported by social trust and national unity, as well as by skilled staff, technologies, and effective development strategies of all different spatial formations.

There is an important connection between the system material of a catch-up modernization (in our case it is a regional economic policy) and management of manifestations of discreteness of regional economic policy modernization at the institutional level. This connection manifests itself in a dialectic acquisition of an accumulated ability of the leading subject of change to perform linear transition from one position to another (see Appendix A) in a role-status sequence of “outsider – follower – innovator – leader”. A ‘critical mass’ and a

powerful combined surge of business and administrative activity are needed to overcome the barrier of institutional inertness when entering the state of modernization changes “from the inside” rather than externally – by command “from the top”. The next mighty impulses of administrative activity will allow crossing the institutional passivity threshold in a new leadership manner. It is significant to mention that a modernization transit from one leadership status to another is fairly unique: localized and consolidated nuclei-groups of regional politico-administrative elites identified with a specific region can assume those roles/statuses. Thus, the interest of elites counts for a great deal in the regional economic policy modernization.

Image 4: Ukraine’s real gross domestic product (GDP) and basic industry manufacturers index (BIMI) in 2013-2015, in % y-to-y



Superposition of roles/statuses of “outsider – follower – innovator – leader” onto aggregated results of the above systems representation of the components of a regional economic policy system under modernization has led us to the following conclusions about transformations of administrative relations as affected by discreteness (Appendix 4). The current Ukrainian situation is indicative of the start of the “outsider – follower – innovator – leader” transition in the catch-up modernization.

As business practice proves (Blank, 1995; Boyett, 2006), accumulation of ‘critical mass’ of effective entrepreneurial and management activity leads to the situation when local initiators, project managers or subordinate middle executives in due course can become coordinators and managers of local modernization processes, and eventually – upper management leaders who generate new leaders. Under certain conditions, a substantial institutionalization of their personal status and social capital takes place (by P. Bourdieu (Bourdieu, 1972 : 182)).

Consequently, in the course of complex social relations modernization, the major change of a modern leadership role-status of an individual or reform nucleus (team) lies in transition from management of an object’s steadiness to develop, in particular through designing strategies, to development and dissemination of value-oriented vision.

4. Discussion

Tension lines and promising mechanisms of modernization

It is important that imbalances resulting from domination of one group of factors, which accelerates or hinders modernization, can cause an appreciable shift in time the emergence of a new “unstable balance” and affect the length of a new discrete “jump” towards changes (see Fig. 1). For the purposes of regional economic policy modernization it means that, subject to a strong political will for state reform implementation in Ukraine, the functional mechanisms for regulation of modernization processes that facilitate, at least organizationally, regaining of the desirable modernization trajectory and speeding up of movement along it are of great current interest. These mechanisms include:

1) **mechanisms for organization of modernization processes** (initiating and designing actions, streamlining, coordination, communication, collaboration and integration with other structures of all levels regardless of their geographic location);

2) **mechanisms for deblocking the modernization processes**, which is called forth by opposition (or sabotage) on behalf of certain pressure groups, lack of mutual understanding, institutional inability etc. Let us take a closer look at them.

To begin with, turning to management mechanism it is worthwhile to accept a definition given by G. Odintsova who describes it as “a means for resolving a conflict within a phenomenon or a process, a systematic implementation of actions, which are based on fundamental principles, goal orientation, functional activity with application of the relevant management methods, and are aimed to achieve the set objective” (Odintsova, 2002 : 12). Depending on a management object and functions, there exist optional versions of management mechanisms with different functional or disciplinary emphases.

Mechanisms for organization of modernization processes. Target vectors of mechanisms for modernization processes organization are as follows:

- initiation, development and realization (within the competence of the relevant power authorities) of the established value orientations and vision along with a set of regional development targets and objects located in the region;

- formation of development centers network for spatial dissemination of innovations. In particular, infrastructure development that reduces economic remoteness (by the new economic geography theory), improvement of other factors (human capital and institutions), support for settlements that create and translate innovations to the periphery);

- attainment of balance between the natural interests of the state, local government bodies, local business, and the public;

- pro-active and efficient response to changes of the structure and rate of growth of a regional socio-economic system;

- organizational mobilization of the reserves for the economic growth of a region and territorial communities located in it;

- integration of a publicly determined trajectory and available resources of regional development with external partners in international, inter-regional and private-corporate cooperation.

At the same time, modernization itself and its organizational mechanisms are obviously contradictory: ruining for the sake of creating more effective institutions requires a “flexible hardness” for its implementation. Carrying out modernization in a young democracy such as Ukraine, it is possible to discern at least *four essential ‘lines of tension’* in several functions of initiation, streamlining and coordination, integration and communication:

- ‘uncontrolled self-progress – controlled “movement by touch”’, which requires a continuous scientific monitoring of modernization, its saturation with breakthrough ideas and solutions, and timely correction subject to external and internal circumstances;

- ‘managerial incompetence and uncertainty – a guiding, regulating, and controlling role of the state’, since it is the state which should be a guarantor of a desired social outcome (Kaufmann, 2003) in the eyes of its citizens;

- ‘social disbelief and sabotage – reliance on positive public opinion’ as to the desired course of modernization by a fair and timely redistribution of state resources and implementation benefits among the population strata;

- ‘power – population’, when in the course of regionalization and voluntary consolidation of communities, the size of government assistance to poorly developed territories may be reduced.

Mechanisms for deblocking the modernization processes. The condition of the state and local budgets, as well as that of the entire market infrastructure, corruption rate, stereotypes of the previous regimes, and “path dependence” have not allowed the Ukrainian regions to build their long-term economic policy or create a mass “new jobs in the real sector of the regional and local economies. All the above-mentioned challenges increase social tension, causing destructive opportunistic behavior of many social groups, and generating new risk factors. That is why it is expedient to combine the mechanisms for organization of modernization processes with those deblocking it.

Reasons and factors for blocking modernization process at the regional level basically lie in the following areas:

- administrative area – as a result of public disbelief in the reforms, continuity in procedures and transition (or loss) of power, inertness in treatment of changes, corruption and so on. These factors are conceptually based on social interaction theories; the concepts of organizational fields and institutional isomorphism (DiMaggio and Powell, 1983); a concept of ‘the strength of weak ties’ (Granovetter, 1973), related to social ties theory (Bourdieu, 1986; Coleman, 1988); a network relations concept etc.;

- resource area, which includes such blocking factors as lack of the key resources – financial, trust and inner consensus as to values and goals, staff, and accountability;

- integration area (blocking through a community’s isolationism and ignorance, disintegration and weak cooperation ties among regions).

To block potentially effective changes, a variety of ways are used: from ideological grounding of changes inadmissibility, with references to traditions, national mentality and the like, to overt bribing of elected law-makers (members of parliament and local deputies) or of appointed heads of executive authorities, whose jurisdiction is to effect the appropriate changes.

Manifestation of all the aforesaid factors brings about formation of *three other groups of systems contradictions*, which, according to G. Kupriashin, penetrate the existing institutional design (Kupriashin, 2015 : 60-61), namely: 1) conflict interaction and tension between institutional changes and continuity; 2) an imbalance between the stereotype of politico-administrative power centralization and the necessity for coordination and institutional autonomy of management objects; 3) an imbalance of reformist efforts concerning simultaneous accomplishments and efficiency, and accountability of authorities’ bureaucratic activity on the basis of combined market and administrative methods. Accordingly, the following three axes of tension emerge:

- ‘steadiness – novations’. It is a crisis of perception of values underlying various governance practices;

- ‘coordination – centralization’. Here belong flaws of politico-administrative coordination of new decisions acceptance and promotion, which are expressed through conflicts between party and political communications and administrative executive procedures of evaluation of local needs;

- ‘efficacy – accountability’. Due to a crisis of credibility to new or weak government institutions, there is an increased risk of non-transparent local decision-making and a growing uncertainty of regulatory mechanisms, since here new informal institutions with low transparency step in.

In this view, the described mechanisms for organizational furtherance of modernization with their “tension lines” explain the manifoldness of the problem range of the current regional economic policy modernization in Ukraine both in terms of organizational regulation and provisions of institutional design and reconstruction of quality institutions. They are a response to a series of “pathologies” traditional for the Ukrainian public sector and governance: irresponsibility, lack of initiative, imitation of changes, disintegratedness, chronic resource scarcity etc. One of real “keys” to solving these problems is adoption of the best modern approaches to mastering external opportunities and mobilizing internal resources, which will be the topic of the author’s next works.

5. Conclusions

It has been proved that the systems approach as a basic methodology of studying and designing a new regional economic policy is closely connected to linking contradictory and multidirectional processes into a consistent logic of institutional modernization or, as a minimum, that of development along a desired trajectory.

Theoretically, this task is fulfilled under the conditions when modernization (or transformation) of relations and institutions runs along traceable paths with application of specific, non-universal modernization mechanisms (in the form of a module-based model of institutional change). This logic makes it possible to build a strategy for regional economic policy modernization in the shape of a consistent development of qualities (capabilities) of a management system and minimization of dysfunctions along the tension lines. Based on feasible mechanisms and identified imbalances, certain

‘institutional modules’ or functional mechanisms of regulation (legal, economic, information), which would incorporate sets of operation rules of regions’ group interaction with other similar subjects in different locations. The mechanisms in question are to be approved by formal and informal institutions, allowing for solution of related problem issues even at the national level.

The regional economic policy modernization along a desired trajectory will be successful only if the regional systems of governance are able to form and make use of more than the two discussed basic mechanisms of furthering modernization – organizational and deblocking; their constituent mechanisms should be employed too. These mechanisms, which are supposed to integrate institutions, interests and values at least at the regional level, are of current interest for all the developing regions and countries. From that angle, the process of incrementing institutions will turn, to a large extent, into a self-transformation (self-development) process.

Generally, the presented logic of identification of mechanisms to support regional modernization can be applied both in Ukraine and in other countries, making it possible to purposefully affect the sequence of processes and structure of management mechanisms pursuant to a country’s priorities. Taking the proposed logic and rationale into account allows avoiding a great many of conflicts and institutional disabilities in management, strengthening regional and local authority’s interest in taking the initiative and exercising democratic flexibility.

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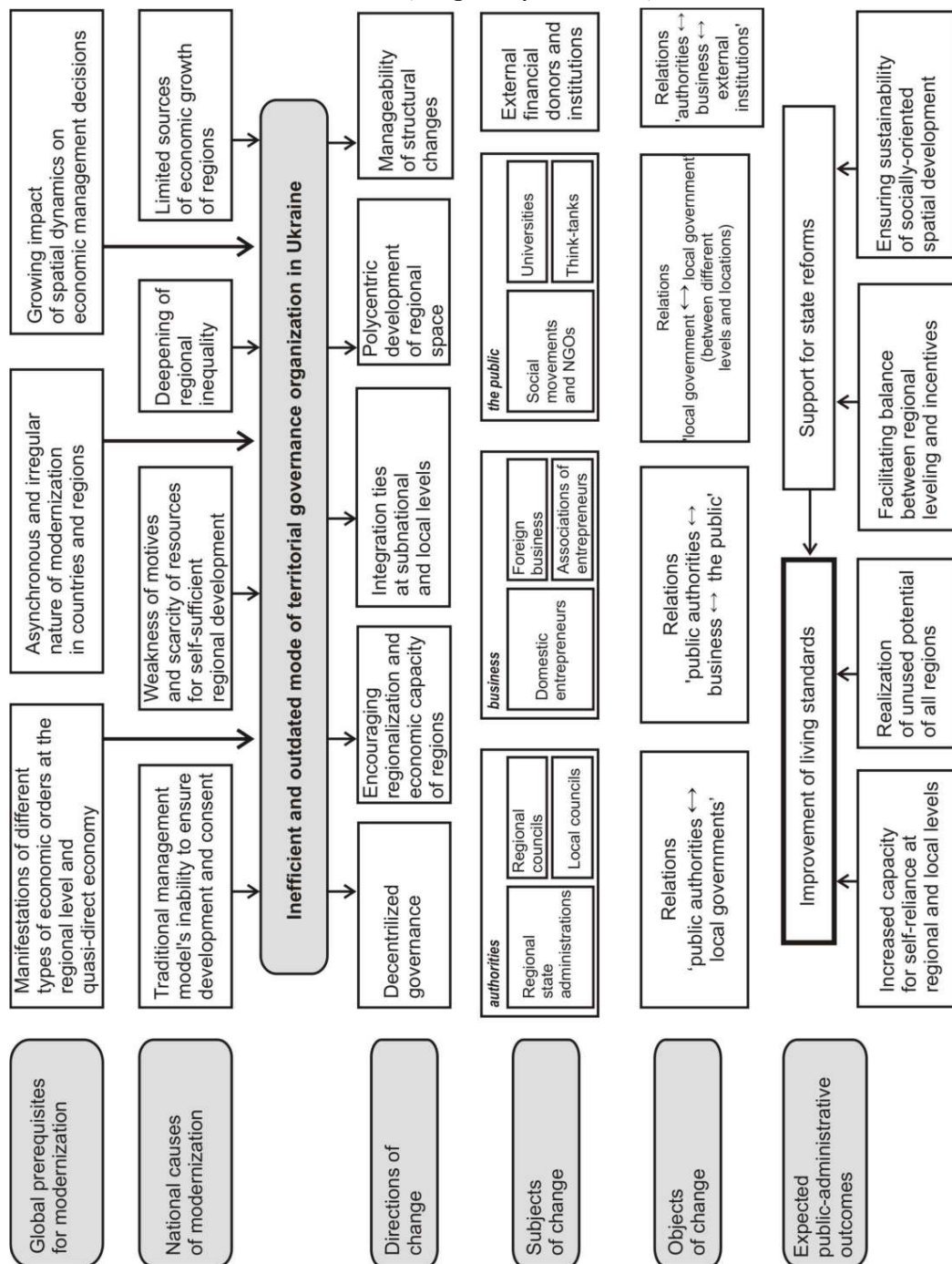
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7. Appendices

Appendix 1: A fragment of representation of the functional structure of a management object, as exemplified by the regional economic policy development process

Typical functions of the process	Main process participants	Basic interest of a participant
Stage: "a process of formulation and coordination of regional development priorities"		
Initiation	State administration (an executive body) and/or a local council	A goal-oriented rational or political motive
Designing policies, forecasting results and options	State administration, developers – experts, special interest groups (big companies, associations, NGOs, communities, universities)	A goal-oriented rational motive
Coordination of parties involved	State administration	A goal-oriented rational motive
Seeking a balance of interests	State administration, a local council	A political and/or goal-oriented rational motive
Stage: "a process of setting and coordination of development tasks and their sequence"		
Designing and selection	State administration, special interest groups	A goal-oriented rational motive
Removing threats beyond set priorities	Developers – experts, state administrations	A goal-oriented rational motive
Stage: "a process of evaluation and approval of main resources for regional development"		
Designing	State administration, "interested parties"	A goal-oriented rational and a political motives
Seeking a balance of interests	A local council and State administration	A goal-oriented rational and a political motives
Drawing up an "agenda" for acceptance	State administration and a local council, special interest groups	A political motive
Formal approval of a consensus agreement	A local council	A goal-oriented rational and/or political motive
Preparation for introduction to implementation and political processes	State administration, a local council	Neutralization of opposition to change and search for support

Appendix 2: The general conception of regional economic policy modernization in modern Ukraine (designed by the author)



Appendix 3: Principal contradictions of modern regional economic policy modernization

Domain of manifestation	Essence of existing contradictions
Public-administrative domain	<ul style="list-style-type: none"> – between (a) conflicts of economic and political interests of certain local elites and special interest groups with projections of innovations of three Ukrainian reforms – local government reform, territorial system reform, and state regional policy reform – and (b) social request for prompt realization of reforms. – between (a) a declared wish of the state to delegate a major part of its authority, resources and responsibility to local governments and (b) a practice of complicated and excessively regulated access to other public resources (funds, guarantees etc.); – between (a) decision-making inertness and (b) institutional capacity of the regional tier of governance to mobilize a partially used administrative and economic potential of the decentralized system of relations, in which regions' independent search for the most reasonable development options plays a major role; – between (a) traditional power authority of the state and (b) new methods of public management.
Economic and spatial domain	<ul style="list-style-type: none"> – between (a) a drastic inadequacy of the method of spatial organization of socio-economic life and (b) market principles and reasons for independent economic entities' location and new settlement preferences of citizens; <ul style="list-style-type: none"> – between (a) economic heterogeneity of regional space and (b) low competitive ability of all the regions and their low institutional and financial capacity for efficient solution of regional socio-economic problems; – between (a) a traditional practice of applying a sector approach to solving socio-economic problems, mostly with public funds, and (b) and integrated programs' approaches to mobilization of various local resources; – between (a) better developmental opportunities, guaranteed by the legislation, for consolidated communities and (b) new institutional-economic and image disparity of communities in terms of attraction (retaining) of valuable resources due to concurrent existence of consolidated and non-consolidated territorial communities in a region – an actual problem of the transitional period; – between (a) the new Ukrainian cultural and economic centers with rather high and increasing competitive abilities and (b) similar foreign competing centers (regions, communities).

Appendix 4: Evolution of transformations in regional economic policy relations affected by the property of discreteness

Type of transition between roles/ statuses	Essence of transformations	Traditional driving forces and motives of modernization
"Outsider"- "follower"	a) open-mindedness to introduction of someone else's experience and new practices. To be happy means to be up-to-date, including in perception of up-to-dateness; b) creation of a potent motive, an internal source of development and self-motivation. An answer to the 'for what purpose?' question determines a possibility to become a leader in future; c) ideological and mobilization attitude for transition from 'process' to 'ultimate result', from 'immediate effect' to 'profound long-term changes' (AuthentiCity, 2008 : 19).	Elites' career and power ambitions; justification of people's confidence
"Follower" – "innovator"	a) from administration and motivation to reliance on trust and unanimity; b) from isolation to integration; readiness for taking risks is supplemented with the ability to manage social risks; c) from ready-made solutions and predictability to originality; from organizational formalism to cultural relations;	Ambitions of the state and elites as to their historical role; retaining power; a human being as a value
"Innovator" – "leader"	a) value-oriented vision (instead of concept and strategy development); strategic competence is required as before, however leadership is performed by impulses, which bring about ideas and innovations that are initially chaotic and often spontaneous; b) transition from general management functions to the role of a propagator of ideas and functions of a company's mission; c) transformation of the roles of an organizational structures designer and a management system architect into the roles of an organizational transformer, a proxy for changes and a converter of its followers into local leaders; d) conversion of individual status leadership into group leadership.	Ambitions of the state and elites; retaining power; power over the future: morals and architecture of new social relations; a human being as a value.

*Source: the authoring, 2016.