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INSTITUTIONAL FRAMEWORKS FOR THE FORMATION OF BUSINESS MANAGEMENT SYSTEM

There were analyzed new approaches to the formation of business management system based on the theory of institutionalism. The features of the institutions influence on economic processes are studied. The peculiarities of state institutions in Ukraine and their impact on the efficiency of enterprises functioning are investigated.

Keywords: institutions, institutionalism, management, economics, rule, development.

In the conditions of a systemic crisis in the functioning of the national economy there appears an important issue to improve business management. There arise topical issues, related not only to the efficiency of management, but also in finding scientifically based approaches to the understanding of the peculiarities of individual businesses functioning.

The results of economic reforms in a number of post-socialist countries, concerning the transition from a system of centralized administration (management) to a market economy, have questioned the legality of the usage of classical methodology of economic science for the analysis of macroeconomic issues and the practical recommendations of market mechanisms development in the countries with a transitional economy. In practice, the drawback of a neoclassical approach to analyze macroeconomic problems is its limitations because it fails to link the processes occurring in the economy and other spheres, namely: social and political, diminishes the value of economic processes regulations by the State. Therefore there is an urgent need in seeking for new
approaches to the analysis of transformational economic processes in modern conditions. According to many researchers, more adequate assessment of the occurred processes can be given by the research-based methodology of institutional economic theory.

According to the Ukrainian researchers, one of the key problems of socio-economic development is to overcome significant differences between old and new economic and social institutions, achieving coherence – coordination of objectives and actions of socio-economic activity, mutual adaptation of different socio-economic groups and their adaptation to new models of economic relations. The economic transformations in Ukraine are not consistent enough and usually focus on the rapid enrichment of a small segment of population, for a long time have been ignoring the specifics of the existing institutional environment and underestimating social and demographic issues and the role of social reform and reconstruction to ensure the dynamic socio-economic development. Today, the institutional factor relates to the most important factors of economic growth in Ukraine [1].

There is given much attention to the issues of improving the organization and management of economic structures and the organizational and economic mechanism, both in the Western and domestic scientific literature. Among the scientists, who explored the issue, we would like to note R. Akoff, I.Ansoff, V.Aliyev, V. Vesnin, M. Weber, H. Mintzberg, B. Milner, M. Porter, R.Fatkhutdinov, A. Sheremet and others. Theoretical and practical problems of the efficiency of economic system organization are reflected in the works of P.Arkyn, I. Mazur, H. Osovska, and N. Rudyk.

Despite the existence of numerous studies of domestic and foreign scientists, there are a number of problems related to the improvement of organizational and economic management in the industry. In particular, it is topical to develop scientific foundations of business management in conditions of today's market economy.

The article aims at forming the main approaches to the formation of business management on the basis of the theory of institutionalism.
The functioning of modern national economies confirms the fact that the State is one of the main participants of the market economic system. In this context there is a problem of optimal combination of government regulations and market mechanisms of economy functioning. Institutional approach allows more adequately developing an effective program of economic reform based on real processes taking place in the economic process.

The institutional trend emerged at the beginning of XIX century, and its foundations were laid by T.Veblen, J.Commons, T.Mitchell. The process of viewing postulates of the neo-classical economic theory by institutionalists was taking place according to several directions. First, according to representatives of this approach, the analysis of neo-classical economic activity includes a methodology that ignores the social, political, psychological factors, structural and institutional features of the real economy. The narrowness of the original methodology is laid also on the idea of an objective function aimed at maximizing income by a rational economic actor at the set parameters. Second, institutional representatives considered neoclassical thesis of individualistic competition such as inaccurate because of ignoring the institutional characteristics due to the existence of monopolies and the State as potential subjects of economic processes.

Institutionalism is based on the assumption that not only the availability of appropriate resources, but also effective organization of economic processes in general, causes the growth of national economy. In this context, institutional structure of society gains a crucial meaning – a set of accepted "rules", which allow ensuring the order and reducing uncertainty in relations between the subjects of economic processes. There is no doubt that any socio-economic order is created and transformed by people and depends on their behavior, imitation of certain legal and moral standards, compliance with laws on the willingness of various groups of population to change and their interest in them. It is not reasonable to expect the satisfactory operation of socio-economic order, while the majority of people in all classes of society won’t follow the rules of the game.

There should be noted the ambiguity in the interpretation of the term "institution". According to T.Veblen [2, 3], the institute – is the habits and patterns
of thinking that cover the majority of a society. D. North regards institutions as rules that include formal and informal constraints and also the enforcement to implement both of them [4]. He believes that the system of public institutions – are rules and regulations that govern economic activity and determine the value of transaction costs, incentives and barriers for the adherence to requirements and also those who win and who lose from these restrictions. Often, groups or individuals are interested in creating such a system of institutions that benefit themselves, but can hinder the overall economic development.

K. Menard considers the Institute as "a set of socio-economic policies in the current historical circumstances, over which individuals or groups of individuals basically have no power, both in the short and in the medium term plan". In economic terms, these rules are meant to determine the conditions under which individual or collective choice of deployment and use of resources can be made. While differentiating between institutions, markets and organizations, he confirms that the institutions are not mechanisms for coordination, but "contribute to the definition of socio-historical conditions under which these mechanisms can be used" [5].

From the standpoint of economic theory, institutions are adapted by the society formal and informal structures and rules that affect and mediate the work of add-economic system and carry out the organization of actions made by economic actors. The role of such institutions in the world economy is very large. They provide effective promotion and reproduction of human capital. Failure to improve public institutions deprives the country of the future effective development.

The existence of informal rules is often due to their better ability to "adapt" to the existing conditions. If formal rules define clear boundaries of behavioral model, virtually leaving no choice to economic agents, the informal offer more flexibility, greater opportunity to maneuver. However, a negative result of preferential economic dominance of informal norms is a low level of private property rights security, inefficient use of economic potential, reduction of production activity, decline in the development of many market institutions – Enterprise Institute, institute of effective owners, bankruptcy institution, etc.
These are the institutional causes of unprecedented transformational recession in the Ukrainian economy, which necessitate the development of scientific bases of economic reforms. On the one hand, informal institutions that have a tendency to self-preservation, have a negative impact on market reforms, on the other – the one-stage rejection of a certain system of relations is impossible, since it would lead to the paralysis of the whole economy.

Today, no one doubts regarding the existence of links between economic growth and the quality of institutions: high-quality institutions promote economic growth; rapid growth facilitates improvement of existing and accelerates the growth of new institutions.

Neo-institutional economics is characterized by different concepts, among which there is the transactional approach, the theory of property rights and economic organizations. Transactional approach, the ideas of which were formulated in the early 30-ies of the XIX century by R. Coase, was further developed in the early 70-ies of the XIX century. The idea of transactional approach is permeated in almost all major provisions of neo-institutionalism. The theory of property rights was formed in 60-70-ies of the XIX century. The representatives of this trend are R. Coase, A. Alchiian, D. North, and others. The main task of the theory of property rights is to analyze the interaction of economic and legal systems. The theory of economic organizations, which is thriving as a part of the Western economic thought, has been formed on the ideas of the theory of property rights and transaction costs in relation to the research of the company problems.

One of the representatives of economic theory is H. Simon, who explained the concept of bounded rationality on the analysis of economic behavior of market actors. Rational behavior, in his opinion, is focused on achieving "satisfactory" results, not on the principle of maximization. With this in mind, the purpose of economic activity is not to maximize, but to achieve a certain level of profits or sales, keeping a certain market share. According to H. Simon, the external economic environment is very complex and changes rapidly, so it is impossible to assume the achieving of a long-run equilibrium [6].
According to D. North, the necessary prerequisites for long-term economic growth in Western Europe and the US were laid in a result of the development in England in the late XVII century of representative government institutions, an independent judiciary and other structures that support the integrity of democratic rights and freedoms of people. At the same time, J. Buchanan, Nobel Prize winner in 1986, says that creating a system of legislature through participation in political elections, population generates not only a set of functioning state institutions but also a system of bureaucracy, which has a system of its own interests, which do not always coincide with the interests of a society. Officials in the bureaucracy system more usually have an inherent desire to push large investment projects (where he can win, personally) than saving public goods.

The current institutional environment in Ukraine, which will provide a stable basis for economic growth, is in rather poor condition. Domestic institutions (both economic and political) unlikely can soften the consequences and correct a deteriorating economic situation and possible consequences of the economic crisis.

According to most experts, the effective strategy of institutional transformations should be directed to:

- widening of private initiative and competition;
- forming of effective social and economic policies;
- establishing of cooperation between business, government and society;
- improving of the quality of institutions (protection of property rights, independence and integrity of judges, reducing corruption levels, enforcing the rule of law, improving the quality of public administration);
- ensuring a high level of human capital;
- laying the foundations of an innovative economy.

Proponents of "institutional modernization" believe that the intervention of unqualified and corrupt bureaucracy can only hurt the economy. Therefore, in their opinion, there should be carried out institutional reforms aimed at improving public administration and the judiciary, reduce of corruption, elimination of administrative barriers, improving human capital and so on. If these problems are
addressed at least partially, the market will cope with the challenge of rapid economic growth [7].

One of the major institutions that define the rules in a market economy is an efficient system for obtaining and protecting property rights. This system provides the legal mechanisms that contribute to the formation of incentives for entrepreneurial activity and ensure compliance of transactions with the lowest cost. R. Coase points out that the lack of well-designed, cost-effective, sustainable institutions that protect property rights and contractual relations, forces businesses to cut costs and reduce risks through vertical integration. This limits the freedom of action of private companies and "suppresses signaling mechanisms of the market" [8].

The current state of Ukrainian legislation, related to the protection of property, is effectively destroying private business – the owner cannot be absolutely sure of the stability of his position. Therefore, we must reform the judiciary, tax system, which would be built in the context of the future architecture of the innovative development of the economy.

The negative consequences of the large scale functioning of the Institute of economic corruption are extremely important for Ukraine at the present stage of socio-economic development. Economic corruption in its concentrated form incorporates various illegal acts that lead not only to destruction of the economy or unilateral development, but also to the transformation of the state apparatus into an instrument of private economic purposes satisfaction. Expanding shadow economy, corruption contributes to the development of organized crime, capital outflows; the state makes it harder to perform its economic, political and social functions.

In Ukraine shadow processes, behavioral models, which were formed within the shadow economy, are also spreading abroad. As a result, the "shadow space" is constantly expanding, capturing new social actors and new social institutions, social organizations. Coverage by corruption of authorities inevitably reduces the role of the state as a regulator of economic and social processes,
stimulating small parasites of society on the issues of the majority that transforms normal system of relations between people in shadow, often criminal sphere.

Because of corruption there is a violation of the mechanisms of market competition, which is the greatest threat of destruction of civilized and legal institutions of the economy and allows obtaining unjustified and undue advantage of economic operators who have persistent corruption relations with the authorities.

Some scholars suggest determining the quality of the institutional system of Ukraine through the following characteristics:

- the completeness, integrity and consistency of formal and legal space, regulating socio-economic activities of the population;

- the compliance with formal rules and regulations of the real socio-economic conditions, their legitimacy and minimal "price conquering" to these standards;

- the effectiveness of state and public control over the implementation of formal regulations;

- the consistency of formal and informal rules and unwritten behavioral rules and regulations among themselves and efficiency of public control over their observance;

- the availability and significant role of informal behavioral norms of modernizing direction and expanding their relevant promising social and economic practices;

- the recognition of the public legitimacy of the existing models of social stratification and compliance with massive social and economic practices of public law rules [9].

Formation of the relevant institutions is a difficult and complex task in deciding of which there should be taken into account many factors: foreign policy situation, national security, the state of economy and businesses, the state of the environment, health, education, regional issues, social stability and so on. The absence of institutions prevents decentralization and specialization of enterprises, does not allow them entering into contracts with competitive suppliers, offer
reasonable premiums and attract investors (both foreign and domestic), complicates the use of modern innovative approaches to combine assets to create corporations or flexible joint structures. As a result, the national economy is not getting sufficient funds to stay competitive on the world stage.

So, solving the challenges of managing economic reforms at both the national economy level and at the level of the individual enterprise can only be effective in the conditions of modernization of Ukrainian society institutions and the mobilization of all material and human potential of the State.