

6. Retrospective analysis of theories of institutionalism in the functioning of agrarian entrepreneurship

Institutionalism as an independent direction of economic thought arose in the 20th century. Representatives of classical institutionalism were Thorstein Veblen, John Commons, Wesley Mitchell, who were fundamentally different from each other and did not have a common vision of the main factors influencing economic processes.

Thorstein Veblen investigated the dependence of economic processes on psychology, biology, anthropology and initiated the socio-psychological direction of institutionalism. He believed that institutions are the result of processes that took place in the past; they are adapted to the circumstances of the past and are therefore a factor of social and psychological inertia, a special way of society's existence. Institutions define a permanent and predominant way of thinking that has become habitual for a group or has become a habit for a people. Thorstein Veblen recognized the principle of technological determinism, but believed that sociological and psychological factors contribute to the development of institutions more than economic ones [92].

John Commons initiated the socio-legal direction of institutionalism and inspired the trust of many people of different social status. In his books, he highlights the understanding of institutions as customs that have their roots in collective psychology and history, but have received legal status.

John Commons followed the tradition of the historical school in applying legal concepts to economics, and more specifically, he explored the development of such institutions as the family, the state, corporations, and he also wrote about trade unions. As for transaction theory, it was the backbone of John Commons's system. By agreement, exchange, he understood primarily the mechanism of transfer of control functions justified by law, i.e. «legal control» from one individual to another. He believed that multiple conflicts can be eliminated only through the legal cooperation of various social strata [93].

The American economist Wesley Mitchell was a student of Thorstein Veblen, who continued the idea of his teacher by leading the conjunctural-statistical current of

institutionalism.

A feature of Wesley Mitchell's research was the use of a huge amount of statistical material that reflected the state of the country's national economy. He considered social psychology, traditions and customs to be the main factors affecting economic phenomena and human behavior. Wesley Mitchell supported Thorstein Veblen's critique of the rational hedonist model and developed the idea of studying real human behavior in the economy through statistical analysis [92].

Neo-institutionalism was formed in the 1950s and 1960s within the framework of neoclassical theory, but gained recognition much later in the 1980s and 1990s. Neo-institutionalism is a socio-institutional trend represented by numerous theories of various institutional orientations. This was expressed in the awarding of the Nobel Prize in Economics to the most outstanding representatives, including: Ronald Coase, John Galbraith, Douglas North.

The theory of transaction costs, which was highlighted in his works by Ronald Coase, turned out to be such a statement of the problem at the time, which was significantly ahead of its time and was somewhat unusual and imperceptible even for the institutionalists themselves. Its essence was that in addition to production costs that reflect the process of society's interaction with nature (costs for material processing, raw materials, planning and coordination of work in production), Ronald Coase also singled out transaction costs as costs for establishing market relations between people. Among them, he attributed the costs of securing property rights, their transfer from one person to another, data protection and others, that is Ronald Coase separately allocated the costs of market functioning.

Another new contribution to the neo-institutional theory was the development of property rights by Ronald Coase, by which he understood the entire set of legal norms that regulate access to rare resources. For the efficient functioning of the economy, it was necessary to determine the property rights of each market agent and reliably protect them for the efficient use of rare resources. As a result of the interaction of two theories, Ronald Coase derived a theorem: if property rights are specified (clearly defined) and transaction costs are zero, then the structure of production will remain

unchanged and efficient regardless of changes in the distribution of resources. The theorem indicated a relationship between the distribution of ownership powers and the level of transaction costs [94].

The works of John Galbraith have gained great popularity in the scientific world, because they highlight the simplicity and comprehensibility of the material presented. He believed that the economic basis of modern society is corporations, the dominant position of which belongs to the technostructure. Representatives of the technostructure are engineers and managers who have complete information and influence the behavior of individuals in the interests of large corporations [92].

Unlike John Galbraith, in his works Douglas North noted that organizations – firms do not quite fit the definition of institutions. He offered his point of view and argued that institutions are the rules of the game, and organizations are the players [95].

It is equally important that in the second half of the 20th century classical institutionalism was transformed into a new institutionalism. The new institutionalism, in turn, develops in the following directions:

- institutional and sociological;
- transformational;
- industrial and technocratic;
- evolutionary.

The institutional-sociological trend is presented in the research of French economists Francois Perroux and Jean Fourastier, who tried to develop such an economic system that would harmonize individual and public interests through planning and state regulation of the economy.

Transformational institutionalism reflected the processes of transformation of capitalism, the emergence of a new form of capitalist enterprises in which the separation of capital-property from capital-function, and property – from managerial labor took place.

The industrial-technocratic direction, within which the scientific school arose and is developing, is represented by outstanding scientists John Galbraith, Daniel Bell, Alvin Toffler. For example, in his works, Daniel Bell called the new society post-

industrial, and this term spread in economic literature. The term «post-industrial society» defines it as a society that comes after the industrial one. The essential characteristics of the new society are the formation of an appropriate technological method of production, which is characterized by information and intellectual technologies, and information and knowledge become a decisive, qualitatively new factor of production.

Representatives of evolutionary institutionalism actively study the megatrends of human evolution, the main regularities, models and stages of social development, shift the emphasis from the analysis of social groups to the analysis of social institutions. Research in this area of institutional theory is mainly focused on the concepts of scientific and technological progress, innovation, industrial development, business cycles and economic growth [92].

Summarizing the material presented above Figure 1 shows the structure of institutional theories and concepts.

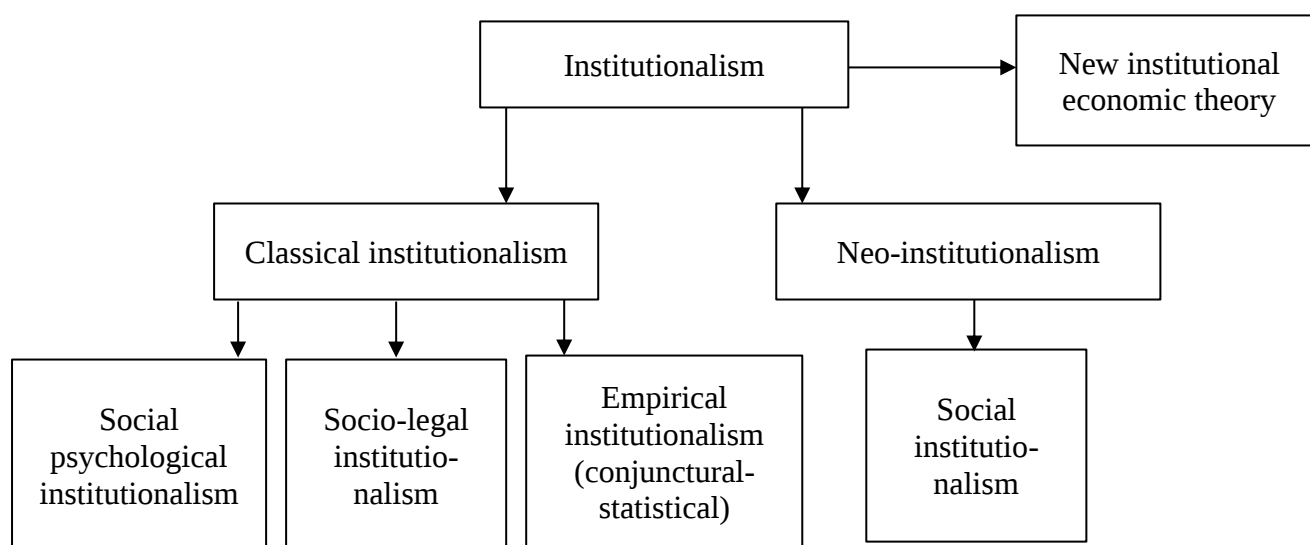


Figure 1. Structure of institutional theories and concepts

Source: author's own development

The emergence of institutionalism is due to the following factors:

1. Transformational shifts in the market system under the influence of monopolization and corporatization of the economy and manifestations of market instability – signs of cyclicity, the problem of employment.

Today, it is impossible to imagine a modern and progressive society without markets and their competition. The term «market» refers to an organizational structure

in which a certain order necessarily exists. The rivalry that arises between producers of goods for the best and economically beneficial conditions of production and sale of products improves their competitiveness on the market and provides the population with jobs.

To ensure smooth operation of the market functioning mechanism, competition performs certain functions (Fig. 2):

1) with the help of the regulation function, the factors of production under the influence of the price are directed to those industries where the greatest need for them is felt;

2) the incentive function forces enterprises to strive for higher productivity. Such a function should be considered from two positions – chance and risk. The chance for the enterprise is to reduce production costs, as well as increase profits when producing high-quality, new products; risk for the enterprise – losses that the enterprise will incur if it does not respond to the behavior of consumers;

3) the pricing function affects the level of individual costs for the production of any product, reducing them to socially necessary, which, in turn, determine the balanced market price of the product;

4) the distribution function allows you to distribute income among business entities in accordance with their effective contribution, which corresponds to the main principle of competition – rewards based on results;

5) the control function acts as a certain force that opposes the emergence of permanent economic power of individual market subjects, that is, it limits and controls the economic power of each enterprise;

6) the innovative function of competition at enterprises is realized by the constant improvement of the technological base of production, the introduction of the latest technologies and progressive forms of organization of the production process, thereby reducing production costs, which can be used more effectively in the future. Enterprises that will not be able to implement such innovation policy measures will be pushed out of the market [96].

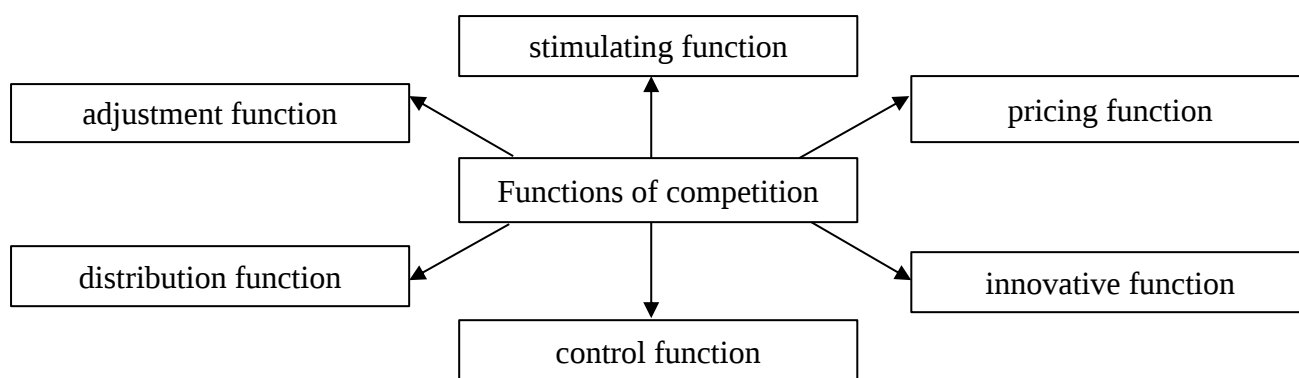


Figure 1. Functions of competition as an economic category

Source [96]

It should be noted that in today's crisis conditions, competition is turning into a very big disaster for many enterprises. Unlimited competition leads to the bankruptcy of a large number of enterprises, the growth of their unprofitability, and the slowdown of production. Unrestricted competition creates unemployment in the country, stagnation of the development of productive forces and reduction of production capacities of enterprises [97].

Therefore, any enterprise should always take into account all the risks during competition, which can significantly affect the enterprise in the future.

By studying the market, you can distinguish between perfect and imperfect competition. With perfect competition in the market, there is a large number of buyers and sellers who do not depend on each other and are unable to influence the price in the future. Otherwise, the opposite of perfect competition is imperfect competition. An example of imperfect competition is monopolistic and oligopolistic competition. Monopolistic competition involves the dominance in one or more industries of a certain corporation, firm or legal entity, which in this case is called a monopolist and is the only supplier of a specific type of product or service on the market. Monopolists occupy leading positions in the market and do not allow the development of small and medium-sized enterprises, which have a considerable number of barriers to entry or exit from the market. Small and medium-sized enterprises must constantly change or improve their operations in order to stay on the market and be competitive. The percentage of monopolized markets in Ukraine is quite large, and therefore high monopoly prices are constantly formed on the market for some types of goods that the country's population

cannot always afford.

First of all, the state must control all actions of monopolists and give all enterprises the opportunity to develop. The government should actively pursue antimonopoly policy, issue laws that will affect monopolistic organizations.

In addition, antimonopoly policy and antimonopoly legislation do not aim to prohibit or liquidate monopolistic entities. The main task of the antimonopoly policy is to put the activity of monopolies under state control, to exclude the possibility of abuse of the monopoly position [98].

2. The presence of social contradictions and the strengthening of the influence of mass social organizations and movements (labor, trade union).

Trade union organizations are created independently without prior permission based on the free choice of their members. The purpose of trade union organizations is to protect the labor, socio-economic rights and interests of trade union members before the owner, who are independent of state authorities and local self-government bodies, political parties, employers, and other civil organizations. Trade union organizations operate in accordance with legislation and their statutes. After all, when getting a job, an employee always expects that he will receive a salary on time, that the working conditions will meet the established standards, in particular, the standards for the duration of working hours and rest. However, any employee is not immune from the arbitrariness of individual employers, heads of enterprises, organizations.

If the owner's labor rights are violated, it will be difficult for the employee to stand up to him on his own. In most cases, such employees are fired immediately or their wages are not paid on time.

By uniting, workers become a powerful force. Moreover, the more workers unite to protect their violated rights, the stronger they are, the more effectively they can protect their rights and ensure that the employer fulfills the legal demands of the labor team.

3. The inability of the neoclassical doctrine to support the opinion of the self-sufficiency of the competitive market, its completely automatic and effective regulation and non-interference of the state.

4. The need for social control over the market mechanism and democratic reform of social relations [99].

The term «institutionalism» is based on the concept of «institute». Institutions include: the state, private property, trade unions, religion, customs, organizations, and others.

Shpykuliak O.H. considers that under institutions it is appropriate to understand certain formations that structure the economic interaction of market agents [100].

Stryzhak O.O. notes in her work that the concept of an institution is quite broad and includes customs, a way of thinking, systems of formal and informal norms and rules, restrictive frameworks of human interaction, procedures and mechanisms for ensuring the implementation of rules, control mechanisms, stable relations that structure social life [101].

Inshakov O.V. focuses attention on the fact that «etymologically the word «institute» means establishment, institution and organization, with the help of which institutions are realized, that is, these specific social functions are performed themselves or they are taught, and they are transferred to new agents» [102].

So, studying institutions, scientists try to more clearly define this term, to understand and explain the social processes taking place in different countries, delving into history, to see the prospects of social development.

The essence of any process, phenomenon or concept is best revealed through its functions. Institutes perform certain functions, including:

- 1) regulate the behavior of people so that they do not cause damage to each other, or that this damage is compensated by something;
- 2) minimize the effort that people spend on finding each other and agreeing with each other. The Institute is designed to facilitate both the search for the right people, goods, and values, as well as the ability of people to negotiate with each other;
- 3) organize the information transfer process;
- 4) implement restrictions in the process of making economic decisions, which are related to limiting access to resources and providing various options for their use;
- 5) an institution that limits the number of possible courses of action affects the

distribution of resources by economic agents;

6) institutes coordinate the behavior of economic agents [103]. But today, the institutional structure of the Ukrainian economy at the moment still lacks clear and reliably protected «rules of the game» that would regulate the behavior of market agents.

Institutions, which should be understood as a set of certain social customs in which the dominant way of thinking for a social group or the entire nation, have become the subject of the study of institutionalism.

For the first time, the term «institution» was used by U. Hamilton in 1918 in the pages of «The American Economic Review» magazine. He gives the following interpretation of this concept: «...an institution is a language symbol for a better description of a group of social customs. They mean a predominant and permanent way of thinking that has become a habit for a group or a custom for a people. Institutions establish boundaries and forms of human activity. The world of customs and habits to which we adapt our lives is an interweaving and continuous fabric of institutions». U. Hamilton considers that institutions play the role of fixers of established traditions and procedures and reflect the general agreement and coherence in society. The scientist includes trade unions, the state, the world of traditions, habits and rituals [104].

Hrytsenko V.V. emphasizes the existence of a categorical difference between the concepts of «institute» and «institution»: «institutions are the basis of the activity of certain individuals and their groups in society. A certain type of institution establishes and enforces rules that ensure the proper functioning of institutions. Thus, the institution is the main form of social organization of certain groups of individuals, which plays the main role in determining their place in the system of relationships regarding the formation of social existence and constitutes a hierarchical system of relationships of the functional structure of society» [105].

Institutions create an institutional environment that affects the behavior of an individual, but at the same time sets limits for the implementation of his activities, using economic, political, legal, psychological and social factors.

At the same time, the institutional environment depends on:

1) harmonization of «government-business-society» relations, for this it is necessary to implement the development of the institution of public-private partnership, develop institutions of civil society, religious centers, improve vectors of interaction and encourage social responsibility of business, etc.;

2) coexistence of formal and informal institutions at each stage of reforms;

3) the absence of inconsistency or conflict between them, the presence of which, as a rule, leads to the instability of the institutional system, is a threat to the stability of the country in the socio-political sphere and may result in an economic crisis;

4) guarantees of compliance with the rights of all participants in economic relations during operations and upon completion of transactions [106].

Institutional support plays an important role in the functioning of agrarian entrepreneurship. According to Article 42 of the Economic Code of Ukraine, «entrepreneurship is an independent, initiative, systematic, at one's own risk, economic activity carried out by business entities (entrepreneurs) with the aim of achieving economic and social results and making a profit» [107].

It can be argued that entrepreneurship, as an economic category, is a certain type of business where the main business entity is the entrepreneur. In his activity, the entrepreneur rationally combines production factors, organizes and manages production on an innovative basis and at his own risk with the aim of obtaining business income in the future.

The essence of entrepreneurship is most fully revealed through its functions:

1. Innovative - promotes the process of producing new ideas, carrying out research and development, creating new products and providing new services.

When creating new products, an enterprise can involve other enterprises in cooperation with the development of a new product or do it independently. At the same time, it is appropriate to develop all marketing strategies, analyze the possibilities of product production and sales, test the product in market conditions, and then deploy the production complex, which will continue to function effectively. A new product can satisfy existing or anticipated public needs, which increases the level of competitiveness of the enterprise on the market of goods and services.

2. Economic - ensures the most effective use of labor, material, financial, intellectual and informational resources.

Labor resources should be understood as a set of persons who work at a certain enterprise and invest their labor, physical and mental abilities, knowledge and skills in the economic and financial activities of the enterprise.

Material resources are a component of production resources that participate in the process of economic activity during one production cycle. Their feature is that they completely change their form and transfer their value to the company's expenses.

The financial resources of the enterprise are some funds that are at the disposal of the business entity and are intended for them to fulfill certain financial obligations.

Intellectual resources form and expand the potential capabilities of the enterprise itself due to their uniqueness and ensure its sustainable competitive advantages in the market.

Information resources of the enterprise serve as instruments of coercion or stimulation of production and commercial activity, management decision-making. Informational resources, in contrast to material, labor and financial resources, are characterized by a certain feature:

- inexhaustibility – they do not disappear over time, but increase;
- multiple use of the same information;
- the value of information increases in its combination with production factors;
- easy to collect and transfer;
- used for various management purposes.

3. Organizational – introduces new forms and methods of production organization, new forms of wages, rationally combines forms of unit division of labor.

According to the Law of Ukraine «On Remuneration of Labor», salary is a reward, calculated, as a rule, in monetary terms, which the employer pays to the employee for the work performed by him under the employment contract.

In turn, salary are divided into: basic, additional, other incentive and compensatory payments.

The basic salary is a reward for the work performed in accordance with the

established labor standards (standards of time, production, service, job duties). It is established in the form of tariff rates and piece rates for workers and official salaries for employees.

Additional salary is a reward for work above the established norms, for labor successes and ingenuity, and for special working conditions. It includes surcharges, allowances, guarantee and compensation payments provided for by current legislation.

Other incentive and compensatory payments – payments in the form of rewards based on the results of work for the year, bonuses according to special systems and regulations, payments within the framework of grants, compensatory and other monetary and material payments that are not provided for by acts of current legislation or that are carried out in excess of the norms established by the specified acts [108]. The correct organization of remuneration contributes to the fuller encouragement of employees. However, this cannot be achieved without adequate funding.

4. The social function consists in the production of goods and services necessary for society, in accordance with the main purpose, the requirements of the main economic law;

5. Personal – affects the self-realization of the entrepreneur's own goal, getting satisfaction from his work.

Business entities (entrepreneurs) can be:

- citizens of Ukraine, other states, stateless persons, not limited by law in legal capacity;

- legal entities of all forms of ownership established by the Law of Ukraine «On Property»;

- an association of legal entities operating in Ukraine under the terms of a product distribution agreement.

The following categories of citizens are not allowed to engage in entrepreneurial activity: military personnel, officials of the prosecutor's office, court, state security, internal affairs, state notary, as well as state power and management bodies, which are called to exercise control over the activities of enterprises [109].

To ensure the freedom of business development, the rights and obligations of

business entities are legally defined. The rights of an entrepreneur include:

- create any type of entrepreneurship;
- buy property and acquire property rights;
- independently organize business activities, choose suppliers, set prices and tariffs;
- free disposal of profits;
- conclude employment contracts with citizens on the use of their labor;
- independently establish the forms, system and amounts of labor remuneration;
- receive any unlimited personal income;
- participate in foreign economic relations, carry out currency transactions;
- use the state system of social security and social insurance.

The responsibilities of an entrepreneur include: complying with current legislation; keep financial records; make mandatory payments; enter into employment contracts with citizens who are hired; to ensure proper and safe working conditions, wages not lower than those determined by law, and their timely receipt by employees, as well as other social guarantees; to observe the rights of consumers in order to realize their legitimate interests, ensuring the reliable quality of manufactured goods (services); obtain a license to operate in areas that are subject to licensing in accordance with current legislation [110].

Entrepreneurship in the agricultural sphere is characterized by a number of features related to the nature of agricultural production, which is based on the ability of plant and animal organisms to reproduce naturally, which depends on the climate and soil. From this follows the fundamental difference between agriculture and other branches of production – in it, the economic process of reproduction is always closely intertwined with the natural one. That is, the consequences of management in this field depend not only on the employee, his technical equipment, but also on natural conditions. The peculiarities of entrepreneurship in the agricultural sector include:

- 1) the economic process of reproduction is always closely intertwined with the natural;
- 2) the extraordinary role of land as a production factor;

3) seasonal nature of production;

4) all enterprises – subjects of agrarian entrepreneurship – are closely related to agricultural producers;

5) a small share of innovative products, the predominance of traditional goods and services;

6) the special importance of informal regulators (trust, reputation of partners) in view of the predominance of the traditional way of thinking and behavior of residents of rural areas [111].

The agricultural enterprise plays an important role in the development of rural areas:

- business brings additional income for the people themselves, which contributes to the improvement of the standard of living of the rural population and the growth of its well-being;

- entrepreneurship solves the problems of food supply for the population of rural areas;

- entrepreneurship is directly an important source of budget formation of local village councils;

- agribusiness contributes to the formation of agricultural product processing chains, procurement of raw materials, as well as the provision of various types of services.

It is no less important that the agricultural enterprise provides the rural population with jobs, but the current situation with employment and employment opportunities in rural areas in Ukraine is considered catastrophic, it is very difficult for villagers to find work at their place of residence.

Table 1 presents the number of employed population aged 15 to 70 by gender, type of location and employment status from 2020 to 2021.

Table 1

Employed population aged 15-70 by gender, type of location and employment
status from 2020 to 2021

	Years		Deviation 2021 (+/-) 2020
	2020	2021	
Number of employed population aged 15-70, total, thousands of people	15995,6	15610,0	-385,6
<i>including by employment status, as a percentage of the total</i>			0
Employed	83,4	83,7	0,3
Employers	1,4	1,4	0
Self-employed	15,0	14,7	-0,3
family members working for free	0,2	0,2	0
Women	7650,0	7406,6	-243,4
<i>including by employment status, as a percentage of the total</i>			0
employed	85,9	85,9	0
Employers	0,9	0,9	0
Self-employed	12,9	12,9	0
family members working for free	0,3	0,3	0
Men	8345,6	8203,4	-142,2
<i>including by employment status, as a percentage of the total</i>			0
employed	81,1	81,7	0,6
Employers	1,9	1,8	-0,1
Self-employed	16,8	16,3	-0,5
family members working for free	0,2	0,2	0
Urban area	11027,3	10774,5	-252,8
<i>including by employment status, as a percentage of the total</i>			0
employed	89,9	89,9	0
Employers	1,6	1,5	-0,1
Self-employed	8,4	8,5	0,1
family members working for free	0,1	0,1	0
Countryside	4968,3	4835,5	-132,8
<i>including by employment status, as a percentage of the total</i>			0
employed	69,0	69,8	0,8
Employers	1,0	1,0	0
Self-employed	29,4	28,7	-0,7
family members working for free	0,6	0,5	-0,1

Source: compiled by the author based on the data of the State Statistics Service of Ukraine [112]

Having analyzed the dynamics of the employed population aged 15 to 70 by gender, type of location and employment status from 2020 to 2021, it can be seen that the number of employed population is decreasing over the analyzed period. The number of working women decreased by 243,4 thousand people, men by 142,2 thousand people. There is also a decrease in the number of employed people in urban areas by 252.8 thousand people and in rural areas by 132.8 thousand people. The decrease in the number of employed people in rural areas is due to the fact that a large number of villagers move to large cities in search of work and employment. Business owners are happy to hire young people who have come from rural areas. They believe

that rural youth are hardworking, sincere and to some extent naive.

Today in Ukraine, agrarian entrepreneurship can function with the help of certain institutional conditions (a combination of formal and informal institutions, as well as coercive mechanisms), which are presented in Figure 3.

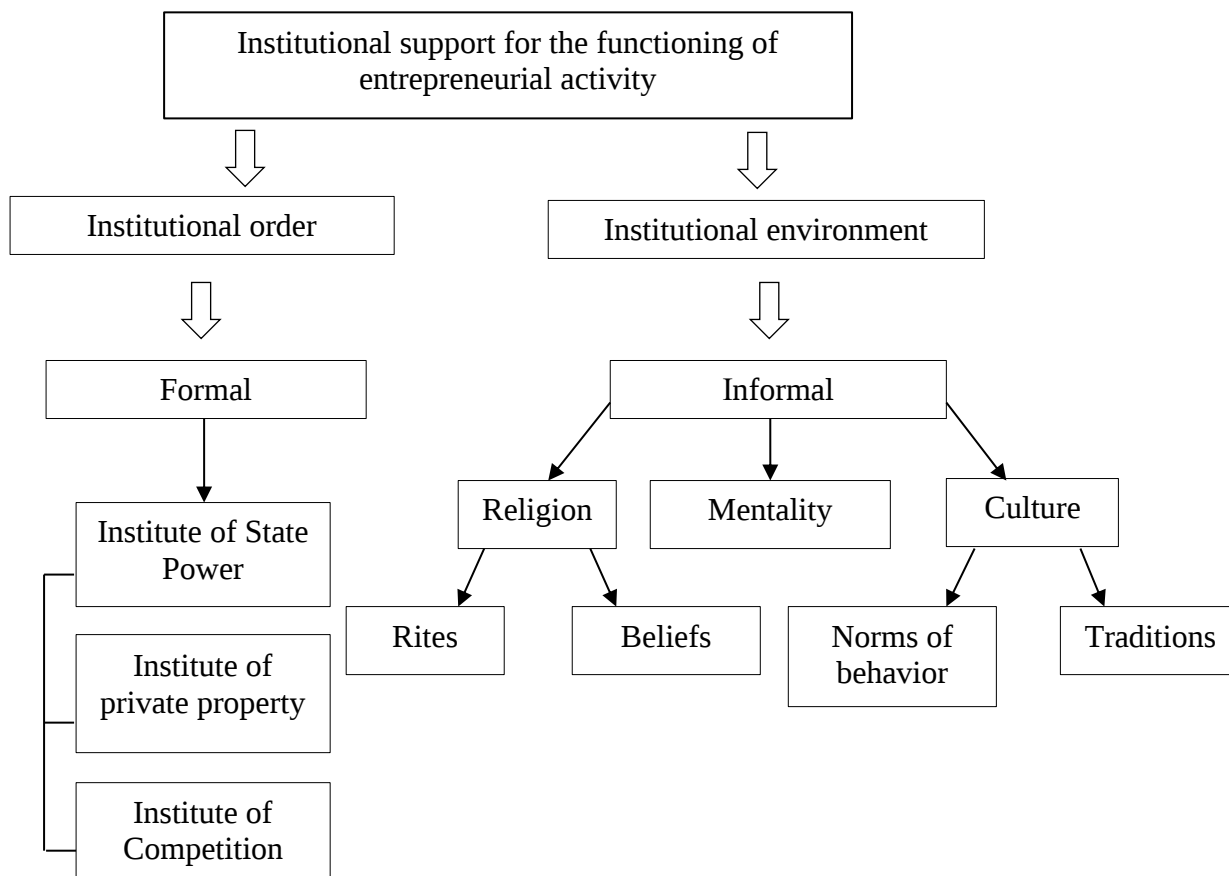


Figure 3. Institutional support for the functioning of entrepreneurial activity

Source: formed on the basis of [111, 113].

Formal institutions that provide the possibility of entrepreneurial activity in the field of agribusiness are normative legal acts (laws, orders, decrees, other administrative documents) that regulate property relations, production relations, distribution and redistribution relations. Basic economic institutions should also include the institution of state power, the institution of private property, and the institution of competition. The effectiveness of these institutes is ensured by the relevant regulatory and legal support [111].

Creating favorable conditions for the development and functioning of entrepreneurship, an important role is played not only by formal institutions, but also by informal ones, which significantly influence entrepreneurial activity. Non-formal

institutions should include: culture (traditions, norms of behavior), religion (beliefs, rites), mentality.

The culture that is formed internally at the enterprise is an important component of the entire life cycle of the enterprise. Culture not only provides high prestige to the enterprise, but also contributes to increasing production efficiency.

Elements of entrepreneurial culture are formed under the influence of the experience of this enterprise, which is built up over the years and constantly improved. Changes that can occur in the culture of entrepreneurship occur according to new ideas about values.

The culture of an entrepreneur depends on appearance, language literacy, sociability, friendly attitude towards every employee of the enterprise, good mood, satisfaction of employees with working conditions, positive image in the business environment.

It is known that foreign investors are reluctant to invest in Ukraine, because domestic entrepreneurs do not always keep their words, but also the signed contracts, and violate the ethical principles of doing business.

The formation and observance of ethics in business activities should be based on mutual consideration of interests. Reliability and duration of relations between partners are ensured not only by compliance with formal institutions (laws and norms), but also by such values as honesty, decency, and good faith. Compliance with morality in economic behavior is ensured by institutional conditions (relevant institutions and rules of the game). The moral values of any nation originate in religion. It is religion that forms the internal attitude of the subjects of entrepreneurial activity to wealth and poverty, individualism and collectivism, gives preference to rational or irrational thinking, determines the attitude to property and entrepreneurial activity in general.

Mentality, as a characteristic of the psychological life of people, is a system of established norms and stereotypes of thinking, psychophysical regulators of behavior, which is determined by the dominant needs and hierarchy of values of a certain ethnic community (people) and significantly affects the creation or change of institutions in society. Through the mentality, the people transmit from generation to generation the

inherited knowledge, moral norms, traditions, customs that affect the economic behavior of individual business entities, the peculiarities of conducting business activities [113].

Therefore, the functioning of entrepreneurship depends significantly on the influence of formal and informal institutions. The use of informal institutions allows entrepreneurs to significantly reduce the costs of searching for information and concluding contracts. But, if we are talking about more advanced markets where there is a lot of competition, then there is a need for formal regulators, enshrined in the relevant laws.