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## INSTITUTIONAL PRINCIPLES OF EFFECTIVE BUSINESS STRATEGY FORMATION

### ІНСТИТУЦІЙНІ ПРИНЦИПИ ФОРМУВАННЯ ЕФЕКТИВНОЇ БІЗНЕС-СТРАТЕГІЇ

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The article investigates economic mentality as an informal institution that affects the motives and behaviors of employees, determines their level of economic activity, allows to create different management approaches, styles of management, helps to develop the organizational structure of the enterprise; economic mentality determines the processes of socialization of the economy, it promotes economic integration, the formation of its competitive potential, determines the level of economic freedom. Modern development economics is characterized by increased attention to the psychological determinants of economic behavior. Representatives of institutionalism and neoinstitutionalism explore the motivation of human behavior with regard to the role of the prevailing social norms and rules of behavior - economic mentality. Economic mentality has certain properties that are characteristic of any social institution, such as historicity, structuring and functionality. Economic mentality is not only dependent on other institutions, but can also produce new institutions because its media is constantly creating new rules regulating economic relations that correspond to the realities of modern economy. A prospect for future research of economic mentality is an integrated approach to the analysis of its main components, promoting its development and use of mental characteristics of society to address the priorities of social and economic policy, because it but can also produce new institutions creating new rules regulating economic relations that correspond to the realities of modern economy.

**Keywords:** economic behavior, institutional environment, socio-economic development, business strategy, entrepreneurial culture.

У статті досліджується економічна ментальність як неформальний інститут, що впливає на мотиви та поведінку працівників, визначає рівень їх економічної активності, дозволяє формувати різні управлінські підходи, стилі управління, сприяє розвитку організаційної структури підприємства; економічна ментальність визначає процеси соціалізації економіки, вона сприяє економічній інтеграції, формуванню її конкурентоспроможного потенціалу, визначає рівень економічної свободи. Сучасна економіка розвитку характеризується підвищеною увагою до психологічних детермінант економічної поведінки. Представники інституціоналізму та неінституціоналізму досліджують мотивацію людської поведінки з огляду на роль пануючих соціальних норм і правил поведінки – економічного менталітету. Економічна ментальність має певні властивості, характерні для будь-якого соціального інституту, такі як історичність, структурованість і функціональність. Економічна ментальність не тільки залежить від інших інституцій, але й може породжувати нові інституції, оскільки її носії постійно створюють нові правила регулювання економічних відносин, які відповідають реаліям сучасної економіки. Формування політики в період трансформацій полягає в необхідності підбору близької в інституційному відношенні моделі соціально-економічного розвитку і, відповідно, в запозиченні інститутів, які добре зарекомендували себе в інших країнах, виходячи зі ступеня їх наближеності (узгодженості) зі сформованими у процесі історичного розвитку нормами, традиціями, цінностями, звичками, особливостями економічного менталітету населення України. Водночас певний прорив у становленні цивілізованого ринку та сучасної соціально-економічної структури населення неможливий також без послідовної та активної модернізації наявної інституційної основи українського суспільства, її пристосування до потреб повноцінної ринкової трансформації та інноваційного розвитку. Перспективою подальших досліджень економічного менталітету є комплексний підхід до аналізу його основних компонентів, сприяння його розвитку та використання ментальних характеристик суспільства для вирішення пріоритетів соціально-економічної політики, оскільки він також може породжувати нові інститути, створюючи нові норми регулювання економічних відносин, які відповідають реаліям сучасної економіки.

**Ключові слова:** економічна поведінка, інституційне середовище, соціально-економічний розвиток, бізнес-стратегія, підприємницька культура.

**Formulation of the problem.** At the current stage of the socio-economic development of Ukraine, an important role belongs to institutional factors that determine the results of economic activity at all levels of management, and even minor dynamics of the institutional structure have a significant, if not decisive, impact on the level of economic activity. Currently, one of the main problems of socio-economic development in Ukraine is the presence of contradictions between new institutions that arose and were formed in the process of market transformation, and institutions that were formed in the process of long-term development in the form of traditions, norms, and models of economic behavior prevailing in society. In our opinion, the problem of conformity of culture and traditions of Ukrainian society with modern norms of market behavior actualizes the need to determine the role of economic mentality in the system of institutional factors of economic development.

**Analysis of recent research and publications.** The study of the economic behavior of individuals, its structure and characteristic features was carried out by representatives of many directions of economic thought, in particular A. Smith, D. Ricardo, D. Mill, I. Bentham, A. Marshall, K. Menger, V. Pareto, J. Keynes, T. Veblen, D. Commons, R. Coase, G. Becker, M. Friedman, T. Gaidai, A. Hrytsenko, V. Geets, S. Degtyareva, O. Dorovsky.

**Previously unsolved parts of the overall problem.** Despite the complexity of the scientific study of the problem of economic mentality, currently, in our opinion, the question of the role of economic mentality in the process of institutional changes in the national economy is insufficiently disclosed. The purpose of the article is a definition of the role of economic mentality in the process of development and reform of the institutional space.

**Presentation of the main research material.** When studying economic behavior, economists focus on the question of how economic agents use limited resources for the production, distribution, exchange of goods and services for the purpose of consumption, that is, they study the process of choosing between alternative options for the use of rare resources, methods of resource organization, methods of distribution profit as a reward for economic activity. For the scientific analysis of economic life, a unified idea of a person acting under specific economic conditions – "homo economicus" is used. This category includes the most important parameters for analysis that characterize individuals, and

above all, the motives and goals of economic activity, as well as the features of a person's physical, mental, and intellectual capabilities, which are used to achieve the economic goal.

1) the predominant role of personal interest – each subject acts according to his personal interests, but at the same time does not violate the rights and interests of other individuals due to the regulatory action of legal and moral norms;

2) normal assessment of the future time – the present time is valued more than the future, which is reflected in the positive norm of time preferences;

3) independence of preferences from restrictions – the preferences of each agent are formed by him independently and do not depend on any financial, social or other restrictions;

4) autonomy of expectations – assumes that each subject forms his expectations by independently collecting, processing and using all available information;

5) personal responsibility – this characteristic means that each individual strives to fulfill his duties to others as accurately and completely as possible [12].

In our opinion, the application of these characteristics for the analysis of the economic behavior of Ukrainian business entities does not take into account, first of all, the fact that Ukrainian homo economicus do not carry out their activities within the economic space with already formed and established market institutions that have undergone a long evolution, but in an environment with a changing institutional structure. According to L. Davis, the institutional environment is a set of basic political, social and legal rules that form the basis for production, exchange and distribution. This is the framework for concluding institutional agreements [1]. Socio-economic and political institutions determine the role of the individual in society, limit his actions to acceptable frameworks for society and, to a certain extent, influence the choice of decisions.

At present, the latest institutional approach attaches increasing importance to the analysis of the historical past of society and the nation. This approach is due to the fact that institutions form a basic structure, based on which people throughout history have created a certain way of life. History becomes a process of continuous institutional development, and the functioning of economic systems over long historical periods becomes understandable only as a part of the unfolding institutional process [13]. Therefore, the dependence of the economic system on the trajectory of previous development is observed, therefore it is important to study the most stable

institutions in space and time, which, in our opinion, also includes the economic mentality.

Neo-institutionalism brought to the fore the problem of motivation of human behavior, in the study of which it is necessary to take into account the role of norms and rules of human behavior formed in society, that is, economic mentality. There are two premises that are accepted in research in the new institutional economic theory:

1) methodological individualism – its essence is that the attitude is consciously adopted to explain any phenomena of socio-economic reality by the actions of individual individuals, i.e. only the individual is recognized as a truly active subject possessing goals, interests, incentives, etc.;

2) the principle of inseparability of the individual and the institutional environment – it is assumed that people have always acted and act in some institutional environment, which, on the one hand, is formed by them, and on the other hand, has a significant impact on the economic behavior of individuals [7].

The economic mentality has certain properties that are characteristic of any social institution, namely:

1. Psychological nature – any social institution, by its genesis, is a psychological formation, a stable product of the exchange of activities.

2. Historicity – institutions are positioned as a certain final product of the historical development of the social sphere.

3. Structurality – each institution exists as a result of its interactions with other institutions of the social system.

4. Functionality – institutions exist as long as they perform the functions defined for them by society, contributing to the integration of society and the achievement of homeostasis [7].

According to S. Kirdina, the basic institutions of society in the sphere of economy, politics, ideology, or so-called institutional matrices, which aggregate the real diversity of social relations, are formed on the basis of mentality. The idea of the institutional matrix is based on the works of K. Polanyi and D. North, who first proposed this term. All the variety of specific features of the majority of existing states can be represented at a certain level of abstraction in the form of two ideal types of qualitatively different institutional matrices – X- and Y, which differ in the complexes of basic institutions that form them (table 1) [6].

In the period of transformation of the Ukrainian economy, the struggle between formal and informal institutions for the right to influence economic relations is particularly acute, as a result of which informal relations pushed the formal rules of the game into the background. Such institutional incoherence in the transition period is inevitable, because it is caused by a rapid change in formal rules, and as a result, the old ones continue to function. There is a disproportionately large weight of informal institutions in comparison with formal relations and institutions, because in all links of the economic mechanism – in the capital market, in the labor market, in relations between enterprises, between enterprises and the state, informal institutions play a more important role than formal ones [4].

In Ukraine, formal institutions exist mostly declaratively, and their "substitutes" – informal

Table 1

**Differences between the basic institutions of X- and Y-matrices**

| Scope of basic institutions | Type of institutional matrix   |  |
|-----------------------------|--|--|
|                             | X matrix   | Y matrix   |
| Economic sphere             | Institutes of redistributive economy (common ownership, official work, coordination, redistribution)   | Institutes of market economy (private property, hired labor, competition, exchange, sale, profit)  |
| Political sphere            | Institutions of the unitary political system (administrative division, hierarchical vertical of power headed by the center, appointments, joint meetings and unanimity, appeals by instance) | Institutes of the federal political system (federation, self-government and subsidiarity, elections, multi-party system and democratic majority) |
| Ideological sphere          | Institutes of communitarian ideology (collectivism, egalitarianism and order)  | Institutes of subsidiary ideology (individualism, stratification and freedom)  |

Source: based on [6]

negative institutions – actually function. Social problems are a direct consequence of the imperfection of formal institutions. The low level of social standards in combination with the market system of income distribution leads to a guaranteed decrease in the quality of life of most of the population; a decrease in the quality of life leads to a decrease in the population due to a decrease in the birth rate and an increase in the death rate, as well as a decrease in life expectancy and a negative balance of external migration. The most noticeable decrease is the number of the most able-bodied part of the population of Ukraine, since the presence of foreign markets with better conditions and a higher level of remuneration leads to an outflow of labor resources.

Policy formation in the period of transformations consists in the need to select a model of socio-economic development that is institutionally close and, accordingly, in borrowing institutions that have proven themselves well in other countries, based on the degree of their proximity (consistency) with the norms formed in the process of historical development. traditions, values, habits, peculiarities of the economic mentality of the population of Ukraine. At the same time, a certain breakthrough in the formation of a civilized market and a modern socio-economic structure of the population is also impossible without consistent and active modernization of the existing institutional basis of Ukrainian society, its adaptation to the needs of full market transformation and innovative development [11].

In case of ineffectiveness of official institutions, which directly belong to the number of subjects of the state strategy or perform their role indirectly, in solving the tasks of reducing transaction costs, the process of activation of "informal" institutions is natural. Therefore, there are reasons to establish a direct connection between the efficiency (perfection) of the institutional system and the effectiveness of the chosen model of the state system. In countries with high institutional quality, democratization has a positive effect on institution building and economic growth, while in countries with weak institutions, democratization leads to their further weakening and hinders growth.

The formation of an institutional environment that will stimulate the socio-economic development of the state should be based on the leading features of the national economic mentality. Due to the peculiarities of historical development, contradictory features have been fixed in it: individualism – collectivism,

dogmatism – striving for something new. When developing strategies for economic development and improving the institutional environment, it is worth taking into account the fact that at the initial stage of the formation of the market economy, individualism began to dominate, the focus is on the individual, and individual control takes place. A tendency to empathize, combined with collectivist traits, will help to increase the corporate culture, and to minimize elements of manipulation and directiveness in management. Employees with a collectivist psychology should be used in areas where specific management methods are used, with an emphasis on collective work, collective responsibility and control, when using the brigade form of labor organization and its payment.

The leading characteristic of the Ukrainian economic mentality, which hinders the successful borrowing of market institutions, is paternalism, that is, a subconscious lack of confidence in one's own abilities and hope for help from state institutions. The impact of this characteristic is clearly observed at the macroeconomic level, since the transition to a market economic system occurs in conditions of a deep recession, which contributes to the strengthening of the socio-economic dependence of the population on the state. This leads to the polarization of society, the growth of social tensions and the marginalization of the economically active population.

Together with paternalism, such a characteristic of the economic mentality as patience was established in the structure of the economic mentality. In everyday life, this trait turns into, as a rule, indifference to the arrangement of life, unpretentiousness, minimization of needs, reduction of initiative, limitation of labor activity. One of the extremely negative manifestations of this trait of mentality is also the internal readiness of a person to tolerate various kinds of offenses on the part of subjects who are on a higher hierarchical level.

A characteristic feature of the Ukrainian economic mentality is disrespect for government institutions and the law. The legal system of economically developed Western countries, which has been formed over the centuries, takes into account and defends the smallest nuances of economic relationships between people, guarantees mandatory punishment for breaking laws, creates certain frameworks for all business entities, including state authorities. On the other hand, in Ukrainian society, in conditions of underdeveloped legal awareness, the market economy cannot fully take advantage of the

advantages associated with free competition. In our opinion, this contradiction between existing legislation and legal awareness is of a general nature and indicates that it is impossible to mechanically transfer the entire Western system of legislative and regulatory acts to a country where there is no respect for legality.

In developed countries, one of the main characteristics of the economic behavior of entrepreneurs is their focus on obtaining profit in the long term. Therefore, the main attention of company managers is focused on solving strategic tasks. As practice shows, domestic entrepreneurs are able to solve economic tasks of various levels of complexity. However, it must be stated that most of them are aimed at maximizing the current benefit. At the same time, few entrepreneurs perceive their own business as a lifelong endeavor. It can be assumed that such an approach is determined not only and not so much by objective reasons (the imperfection of Ukrainian legislation, the instability of the political situation, the shadow economy, etc.), but by subjective factors – the mentality of Ukrainian entrepreneurs. This is also confirmed by the fact that during the entire period of reforms in Ukraine, the activities of its leadership are constantly criticized for their inability to develop effective programs for the long-term development of the country's economy. At the same time, it is quite obvious that the lack of focus on solving strategic tasks in economic activity (both at the level of companies and at the level of the state) significantly reduces the effectiveness of the socio-economic transformations being carried out.

Measures that will help to fully use the potential of the Ukrainian economic mentality to reform the institutional environment can be conducted at different levels of management:

1) mega level – the formation of a positive image of the state takes place due to taking into account strong mental traits – collectivism and statehood, patience (when implementing foreign trade agreements and joint production activities);

2) macro level – creation of social services with branches in regions and enterprises, the purpose of which will be modeling of specific management systems based on dominant features of mentality;

3) meso level – creation of centers whose task is to popularize investments in innovations; in this case, the desire for something new is the mental basis of transformations that primarily change the outlook of Ukrainian entrepreneurs and managers;

4) micro level – the formation of a corporate business culture based on the interaction of

elements of the market mentality (rationality – the desire for wealth as an end in itself, the desire to earn and invest; honesty – the willingness to fulfill the responsibilities assumed; independence – the desire for leadership, innovation, willingness to take risks) and promising mental traits of Ukrainians.

An efficient economy based on market principles needs institutions that will reliably protect property rights on the basis of mandatory law enforcement for all citizens; will carry out effective regulation of the labor, capital and goods markets; will support macroeconomic stability; will coordinate economic and social interests in society, provide an effective system of social protection, prevent or effectively settle social conflicts, etc. Without institutional reform, it is impossible to create effective market conditions that would stimulate the dynamic development of the economy and the achievement of such a level of welfare of the population that corresponds to universal human values of a dignified life, and it is the use of the national economic mentality that will make it possible to increase the effectiveness of institutional reform.

**Conclusions.** The diversity of cultures gives rise to peculiar models of economic behavior, the basis of which are the values, stereotypes, traditions and historical experience of the state, which generally form the national economic mentality. The main features of the economic mentality of Ukrainians come into conflict with the formal institutions of the market economy, they do not contribute to effective and rational economic decision-making, law-abidingness, honesty and transparency in establishing economic relations with other agents, active economic activity that is oriented towards achieving strategic goals. Taking into account the significant influence of the economic mentality on the development of the institutional environment, the introduction of economic growth models in Ukraine, similar to the highly developed countries of the world, should be carried out only in the plane of Ukrainian culture, taking into account the role of social and psychological institutions, that is, through the adaptation of foreign models and methods of implementing effective economic activity to Ukrainian conditions society.

Prospects for further studies of the economic mentality lie in an integrated approach to the analysis of its main components, stimulation of development and use by state authorities of mental characteristics of society in the process of structural transformation of the national economy, formation of the national model of economic development.

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