

Aspects of forming the institutional mechanism for organization management

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Abstract. The research of organizations' development based on the study of the institutional mechanism helps to identify problematic issues and the possibility of economical systems' functioning, on the ground of which the directions for the enterprises' evolvement are determined. The purpose of this article's study is to reveal the features of institutional mechanism's formation for managing an organization. Within the framework of this article, the analysis of basic concepts like "institution", "institutional management", "institutional mechanism", etc. is conducted. It is determined that formal rules' institutions, mechanisms and restrictions include legislation and structures that implement their activities by introducing general principles into society and forcing participants to comply with the established rules. It is substantiated that institutional mechanisms, in case of effective use in the activities of organizations, will ensure the interaction of institutions and enterprises, forming an infrastructure represented by institutional requirements and opportunities for their implementation.

Keywords: economic system, organization management, institution, institutional management, institutional mechanism.

1 Introduction

The modern system of relations between economic entities and the state is built on the functioning of institutions' large number, which in their turn form a certain institutional mechanism. In this respect, in itself, the mechanism of this kind, covering various systems' economic systems is influenced by the large number of factors both internal and external environment [12].

In the event that institutional mechanisms fail, the transformation of their individual elements or the mechanism as a whole is able to solve these problems and ensure economic system's growth. Such changes can be observed especially distinctly in small business organizations, since it is precisely such organizations as the driver of the economy that are transformed faster than others under the influence of the institutional environment[5]. Small business organizations expressly need, unlike other participants in economic relations that

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depend on the institutional environment and its changes. In this regard, the institutional environment of small business is represented by organizational structures' set holding formal and informal values, which sustains the making of codified and non-codified restrictions affecting the organizations' activities in this sector.

2 Materials and Methods

A lot of authors, exploring the nature of institutional management, have different points of view in terms of organizational structures' interpretation that interact and influence each other. In his work on the nature of the institutional mechanism, S.V. Istomin speaks of the institution as a norm or rule that is used in the interaction of subjects, while this norm or rule is shared by the majority [15].

According to D. North, institutions are the rules and norms developed by people, which in their essence are actions' restrictions aimed at the political, economic and social relations of subjects [16]. As W. Scott indicates, institutions are represented by structures and forms that, through cognitive, normative and regulatory influence, endow the behavior of individuals with stability and significance. These structures primarily are referred to culture, social institutions and routines [16]. Exploring the concept of the institutional mechanism and its role in managing the activities of the subjects of socio-economic relations, one should refer to the interpretation of the term of "mechanism". Thus, in the most general sense, a mechanism is system's internal device, which has as its goal the actuation of the system itself or its individual elements [6]. The scientific literature in the realm of institutional mechanism's research and the laws of its functioning is represented by the works of scientists' large number, such as R. Scott, V.V. Volchik, S.V. Istomina, V.E. Tsarev, D.A. Vershna, I.V. Novikov, V.A. Utkina. In such a way, R. Scott defined the institutional environment as the combination of three aspects: the policy of states, knowledge, skills, rules and norms accepted by the majority in society and which are traditional, the regulatory structure that forms the formal system of values of society, namely framework regulation [1].

3 Results

The analysis of various interpretations of the concept "institutions" confirms that this form of interaction exists as the set of norms and rules, being both formal and informal ones contributing to the decision-making by individuals that get in line with the socio-economic and cultural trends in the development of society and its historical values. The analysis of various approaches to the interpretation of the terms like "institution", "institutional environment", "institutional mechanism" enabled to generalize and present the institutional mechanism for managing the interaction of organizational structures in Figure 1.

Considering the institutional mechanism, according to the author, it is necessary to distinguish between the concepts as "organization" and "institution" since these ones are discussed synonymously by a lot of authors. According to the most general interpretation, an organization is the set of active participants who, by combining their tangible and intangible resources, strive to achieve a common goal. Organizations are both public and private. In this context, they differ in purpose. For public organizations, the main goal is to achieve the aims of the state. These goals lie in the plane of solving socially significant problems. Commercial or private organizations have the main goal of making a profit under the conditions of acceptable risk. These are business related organizations. As for the term as "institution", this one should be understood as the set of organizational forms based on the formal and informal principles that ensure the orderly interaction of economic entities

(organizations) through the coordination of restrictions applied in accordance with the rules and norms adopted in society. Unlike the organization, which has relations' flexible system, being adaptable and changing in order to achieve a tangible or intangible goal, the institution is the system built on plain dogmas of both formal and informal nature and the stable phenomenon of human society.

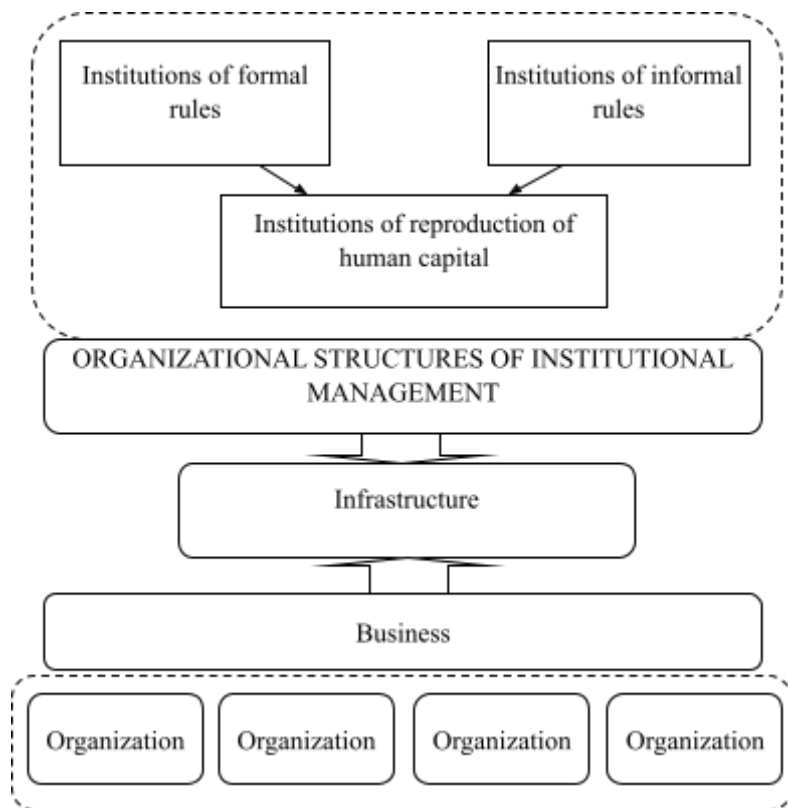


Fig. 1. Institutional mechanism for managing the interaction of organizational structures. *Source:* compiled by the author

Formal rules' institutions, mechanisms and restrictions include legislation and structure implementing their activities by introducing basic principles into society and forcing participants to comply with established rules. Stronger the resistance of participants to the adoption of formal norms and rules is more explicit the restrictions and coordination for their application [16]. This characterizes institutions as stable and predictable systems. Thus, formal institutions are the set of rules that determine the life of society in all its directions: economic, political, legal.

4 Discussion

The role of organizations, primarily business players' organizations is to play according to institutions' formal rules. That view was held by such scientists as J.M. Vesiana, D. Urbano [4]. However, it should be singled out that formal institutions can diminish and lose their strength in unstable, transitional, transformational conditions that any system inevitably experiences periodically, including business organizations. Under such conditions, these are

informal institutions that begin to play a leading role not only in socio-cultural, but also in economic and political development.

It is customary to attach the history, cultural and ethical traditions of society to informal institutions, without taking into account which, community will not accept certain formal rules and norms. Thus, one can speak of informal institutions as the core of society that has developed over the centuries and which is resistant to external changes. According to a lot of authors, informal institutions represent a "collective mind", in accordance with which both individual participants and society as a whole develop [2]. In the view of some authors, including S.G. Izmailova, this fact makes the role of informal norms and rules key in the development of society, since they consist of inveterate and resistant to change beliefs. In this context, we can agree with some scientists who believe that informal institutions can change formal ones due to the fact that formal institutions' subjects, performing their functions in society, act on the basis of the informal environment that is accepted in this society. In other words, formal and informal institutions create institutional requirements that are implemented in organizations.

In connection with it, the purpose of both formal and informal institutions is to organize and coordinate system resources' use to satisfy the needs of system participants in compliance with the established and accepted norms and rules. In its development, any system strives for stability, which requires additional efforts and resources' flow, since community's development is associated with constant changes. On this basis, the place of knowledge and, accordingly, human capital comes to the fore [14].

The proficiency in economy is institutions' set ensuring the reproduction of implicit and formalized knowledge, the use of which underlies human capital's development.

The institutions of human capital's conversion, as knowledge economy institutions, are the complex of formal and informal norms and rules that are aimed at the development and formation of an effective personality. Some authors define the institutions of human capital reproduction as the system combining both inertial and innovative characteristics.

Inertial characteristics are informal rules such as traditions, history, culture, which are long formed and rooted in society.

Institutions' inertial features for the human capital's conversion afford to set objective restrictions on formal rules and norms, based on the needs of society. This interaction of formal and informal constraints creates the prerequisites for the development of an innovative approach to solving the traditional problems of society and creating new demands and needs.

The institutions of human capital reproduction providing such interaction are represented by: the family, pre-school institutions, schools, higher and secondary education establishments, institutions for advanced training or professional retraining, etc.

Higher education, as human capital reproduction's establishment should be considered as the key institute that, in the conditions of the modern vector's development, provides not only the improvement in human capital's quality in terms of new knowledge and skills, but also the creation and innovative approaches' implementation that are necessary conditions in the context of digital transformation, economic development [8].

It is higher education that affords to create innovations both in the material and non-material spheres in an empirical and scientific way. Today, higher education establishments are assigned the role of personality development, capable of generating new approaches to solving existing problems, as well as forming society's new needs for dynamic economic development [7].

Thus, we can agree with some scientists, including N.V. Veretennikova, that human capital reproduction's institutions are created and developed under the influence of socio-economic institutions. Such institutes provide a synergistic effect from formal and

informal norms and rules' application in human needs' formation and acquired abilities' implementation [3].

In turn, human capital reproduction's institutions can influence other formal and informal institutions. So, in society there is the need to reduce corruption level as society's informal institution. To solve this problem, it is necessary not only to improve the regulatory framework, namely, to strengthen formal rules and norms, but also to ensure such quality of human capital that, taking into account ethical and other informal restrictions, can affect corruption's reduction in the future.

The role of the institutional mechanism and its impact on economic entities' development, such as organizations related to the business sector, is difficult to overestimate. Some authors believe that very formal institutes that underlie the development of business and the entrepreneurial environment [9]. This is explained by the fact that business is inherently the phenomenon in the economy, which has been formed and developed under the impact of concise formal principles that structure the business environment.

Today, the business environment is represented by three groups of formal institutions: legislation, freedom's institutions of business circulation and the same ones but for merchandise [11]. The legal system, as one of the key formal institutions of social partnership between the state and socio-economic relations' participants, defines the number of mandatory formal conditions that provide the possibility of creating and operating an entrepreneurial structure. Such formal conditions include the need for state registration and payment of mandatory payments to state funds, employment of workers and ensuring their social security, compliance with labor legislation regarding the regime and working conditions, etc. [14].

At the same time, it should be acknowledged that business activity, according to the Civil Code of the Russian Federation, is an independent activity, under risk's conditions that the entrepreneur himself takes and for which he has personal and full liability. This interpretation of entrepreneurship expands the scope of its functioning far beyond the formal rules and norms. Here we should talk about the influence of informal institutions on the subsequent business organizations' development in a constantly changing external environment [13]. Corruption, lobbying, tax evasion, the ever-increasing level of distrust between the state, business and the population should be singled out among such informal institutions that influence and change the organization [10]. Also, the informal institutions of organization's influence with the goal of making a profit include fashion, trends and digital space on the Internet. Based on this, the opinion that informal institutions are an inhibitory element in the entrepreneurship development is erroneous. According to the author's point of view, they play a dual role on the one hand, they are a deterrent, warning factor, on the other hand, a stimulating factor for the business organizations' development and the formal institutions themselves.

5 Conclusion

Summing up, we observe that the institutional mechanism for managing the organization, and specifically, related to the business environment, is the set of formal and informal institutions that consistently influence key processes in the organization through norms, rules and traditions, thereby ensuring goals' achievement.

On this basis, we can conclude that the institutional mechanism ensures the interaction of institutions and organizations, forming an infrastructure represented by institutional requirements and opportunities for their implementation.

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