

CONTEMPORARY MODELS FOR REGULATING ENTREPRENEURSHIP INSTITUTIONAL ENVIRONMENT

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ABSTRACT

The article explores internal and external factors of a company entrepreneurial potential development and examines the role of the company in the external environment institutional design in accordance with the G. Hofstede approach. The authors considers the institutional traps that hamper the implementation of institutional projects. The paper pays particular attention to the effect of cross-cultural factors on the design of the external environment by the company. The authors formulate and calculate the model of company performance dependence on the quality of institutional environment design.

In this study, determined by the limits of institutional design and options determine the performance of projects that are determined by the composition of objects and subjects of design, degree of project conformity to design principles, economic efficiency of application of the developed Toolkit of institutional design. Identifies possible obstacles to the implementation of modern institutional projects. They are resistant ineffective rules and regulations (institutional traps). Their systematic effect leads to negative selection among competing institutions. Proposed the method of analysis the quality of the design of the institutional environment of the firm taking into account cross-cultural factors. It is based on the application of the framework structure of G. Hofstede when comparing subjective and objective measures of the environment according to the parameters of individualism/collectivism, power distance, uncertainty avoidance, quantitative indicators of life, long-term/short-term orientation. It is also proved that the efficiency of the operating activities of the firm are largely determined by the level of quality of the design of the institutional environment subject of entrepreneurship.

Keywords: entrepreneurial climate, institutional design, state support programs, institutional traps, cultural component, dynamics of transaction costs, external environmental factors, monitoring institutions, cross-cultural interactions, mental programs, institutional environment, business entities competitiveness, company performance, company external environment regulation, transaction costs, business entities, G.Hofstede framework, design quality, economic agents, modern company, quantitative indicators, long-term perspective.

INTRODUCTION

Contemporary economics pays significant attention to the examination of internal and external factors that contribute to the creation of favorable entrepreneurial climate for the company that can be utilized in the development of various state support programs. Despite the fact that many of the previously developed recommendations are not up-to-date, they are science-based, deeply examine the current situation and undoubtedly would have a positive economic effect.

The company acts as the main subject of the external environment institutional design along with

the state, households and supranational entities (corpocracies) that resulted from the integration of the state, international financial and credit organizations and transnational corporations. All components of the external environment, including mental programs of economic agents are viewed as an object of institutional design. In accordance with Hofstede existing approach [12], the article identifies the mental programs of three levels - universal (inherent to all individuals), specific (inherent only to a specific group of individuals), and single (inherent to a single individual). A specific level can be defined as culture [8].

The institutional design boundaries and projects impact are determined mainly by the composition of design objects and subjects, the degree of projects conformity to design principles and the economic efficiency of the developed institutional design tools application.

A significant obstacle to the modern institutional projects implementation are stable ineffective rules and norms (institutional traps), the systematic effect of which leads to a negative selection among competing institutions. One of the most common forms of such a trap is the contradiction between the cultural component of the newly established institution and its economic efficiency in terms of transaction costs dynamics impact. Currently, the institutional projects development problems, as well as the exploration of the contemporary institutional projects conformity to the basic design principles are addressed by R.F.Callahanetal [2], T. Dille & J. Söderlund [3], M. Gradstein [5], V.F.Islamutdinov [6], R.Shaw [11], E.H. Klijn & J.F.M.Koppenjan [10], N. Bagautdinova et al. [1], A.I.Khwaja[7], V. Kisfalvi &S.Maguire [9].

One of such trap manifestation forms is the contradiction between the cultural component of a newly established institution and its effectiveness in affecting the transaction costs trend. For instance, in the North America the development of an Anglo-Saxon-type institutional environment did not provide for the inclusion of indigenous peoples mental programs in the institutions being established, in contrast to the model of the Spanish-Portuguese type dominating in Latin America. Meanwhile, the transaction costs trend testifies to the advantages of the first model. Thus the problem of cultural pluralism influence on the type, direction and pace of economic development is still under discussion, which becomes particularly important in the context of the Russian multinational state.

MATERIALS AND METHODS

A modern company possesses a certain institutional capacity, i.e. the ability to develop and implement institutional projects aimed at creating and forming new institutions and modifying the existing ones, transforming proto-institutions into modern institutions, which results in the changes of environmental factors composition and content. Currently, the company is developing a monitoring institution for analysis and generalization of data on the content of economic agents universal mental programs in the basing area, predetermined by genetic heredity. The company participates in the development and implementation of state projects that are aimed at the establishment of external for the company institutions for the development and correction of the content of economic agents specific mental programs.

Thus, the company creates prerequisites for effective cross-cultural interactions at the micro, meso-, macro- and mega-levels, since it has sufficient information on the mental programs content and the potential for their implementation within the established institutions, as well as on their role in shaping the competitive potential of the economic entities in an open economy. The company establishes internal training institutions for developing and correcting the individual mental programs content and creating prerequisites for transforming cross-cultural competencies into a component of sustainable competitive advantages in the domestic and foreign markets. External environment design in accordance with cross-cultural factors that are implanted in

existing institutions or taken into account when establishing new ones, allows to create an effective institutional environment that ensures the effectiveness of cross-cultural communications and increased business entities competitiveness in the domestic and foreign markets.

RESULTS

The authors explored thirty business entities in terms of cross-cultural factors in the Republic of Tatarstan. These factors determine the external environment development, it is more expedient to investigate them using G.Hofstede framework [4], which presupposes the consideration of independent variables: individualism / collectivism (within the framework of the proposed assessment model, 1 point corresponds to individualistic cultures, 10 points - to collectivist cultures); distance of power (1 point - power distance is absent, 10 points - power distance is maximal), rejection of uncertainty (1point - high uncertainty acceptance, 10 points - almost complete rejection of uncertainty), quantitative indicators of life (1point - quantitative indicators are insignificant, 10 points- quantitative indicators are significant), long-term / short-term orientation (1 point- short-term orientation, 10 points - long-term orientation). The external environment state assessment in terms of the above mentioned approach is performed in two stages: the first stage includes the existing external environment assessment (objective assessment), the second stage presupposes the assessment of the institutional environment designed by the company (subjective assessment). Finally these two assessments are compared (see Fig. 1-a and 1-b).





Fig. 1 – a).Balanced objective / subjective assessment of external environment

Fig. 1 – b).Imbalanced objective / subjective assessment of external environment

The figures above demonstrate that the quality of the company institutional design of its external environment is high (Fig. 1-a), (the quality level is defined as the total modular deviation of subjective characteristics from objective ones, normalized to the maximum sum of points) due to a slight deviation of objective characteristics from subjective ones (quality index is 0.1), whereas the quality of institutional design in a situation, demonstrated in Fig. 1-b, is characterized as low (the quality index is 0.52). Further, the authors analyzed the dependence of the company performance on the quality of institutional environment design (Fig. 2).

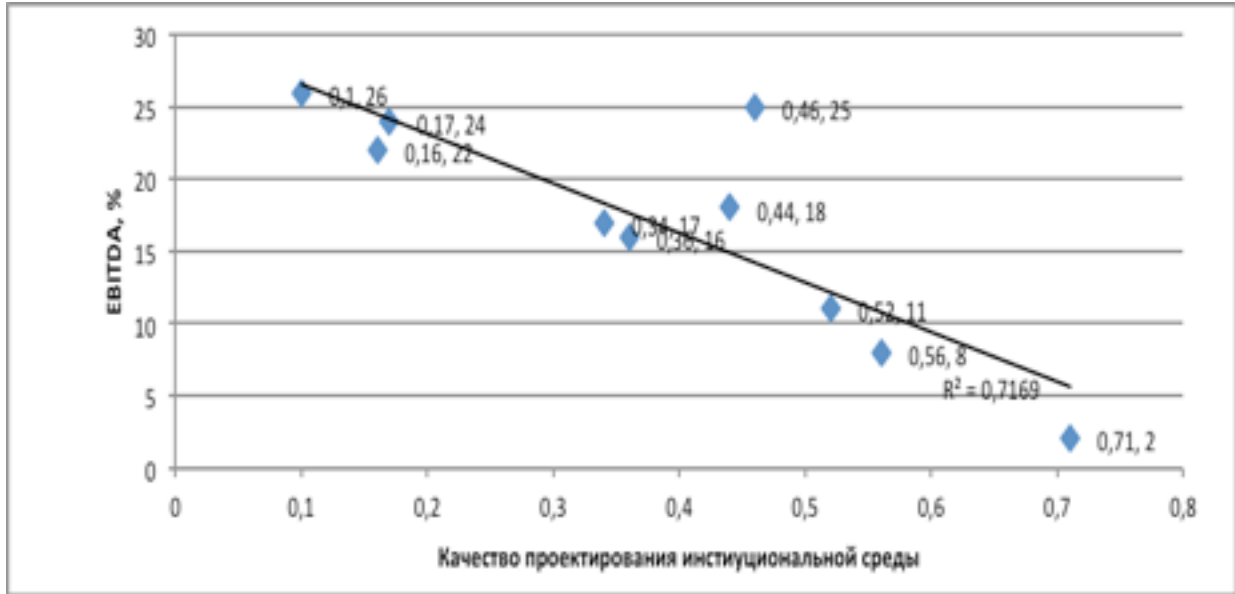


Fig. 2 Dependence of the company performance on the quality of institutional environment design

Thus, there is a strong reverse dependence of the company performance on the quality level of the institutional environment design, which confirms the necessity to consider the cross-cultural factor in the process of regulating the company external environment in modern conditions.

CONCLUSION

The proposed methodology for analyzing the quality of the company institutional environment quality design, taking into account the cross-cultural factor, is based on the use of the G. Hofstede framework in comparing the subjective and objective assessment of the external environment in terms of individualism / collectivism, power distance, rejection of uncertainty, quantitative indicators of life, long-term / short-term orientation. The authors have proved that the company performance is largely determined by the quality level of business entity institutional environment design. This approach can be applied in the development and implementation of state projects that are aimed at the formation of external for the company institutions for the development and correction of the economic agents specific mental programs content that promote the creation of prerequisites for effective cross-cultural interactions. Moreover they could be exploited when forming internal for the company training institutions for the development and correction of the economic agents specific mental programs content and for creating prerequisites for the cross-cultural competencies transformation into a component of sustainable competitive advantages in the domestic and foreign markets.

The development of any measures of state regulation of economic processes implies the existence of certain principles which make these measures consistent, unidirectional and integrated, thereby increasing their effectiveness.

The principles of state regulation of business activities create the legal framework of the nation-state. These principles should not only be consistent with the General principles of government, they should apply to all forms of legal regulation of economic actors. Traditionally, the principles of state regulation of entrepreneurship include the following:

1. The principle of legality;
2. The principle of expediency;
3. The principle of freedom of entrepreneurial activity;
4. The principle of justice;
5. The principle of a single economic space;
6. The principle of maintaining competition and preventing economic activities;
7. The principle of balance private business interests, public interests of the state and society as a whole.

The above-described principles of business regulations applicable to the Russian economy. Strict compliance would serve as a powerful stimulus for the development of entrepreneurship and reduce the number of entrepreneurial networks in all spheres of economic activity. Proposed regulatory principles business should consider when developing measures of state regulation of entrepreneurship in order to increase their effectiveness.

DISCUSSION

The conducted research of the company's external environment institutional design specifics with the consideration of cross-cultural competencies allowed to obtain new scientific results. These achievements can serve as a continuation for the exploration of institutional environment regulation models for the entrepreneurial activity in terms of identifying the interrelation of cross-cultural factors with institutions.

The authors have considered and justified three models of the company interaction with the environment with the view of its uncertainty reduction based on the achievement of institutional isomorphism as a form of homogenization, namely: the business model of domination, involving the development and implementation of exogenous institutional projects aimed at the transformation of environmental factors in accordance with targets, core values and mental models; the mimetic model involving the development and implementation of endogenous institutional projects aimed at the effective reproduction of internal institutions (institutions defining organizational apparatus et al.) and mental models; the model of adaptation to the environment, suggesting the development and implementation of exogenous and endogenous institutional projects to formalize the company comparative advantages represented by mental models based on the local institutions establishment (self-regulation institutions et al.).

In the course of the research we have determined the structure of a company external environment cross-cultural factors relevant to the target indicators and the indicators of its functioning, which include: values as the dominant element of the mass economic cultural, skills as the dominant element of the economic culture of the entities that possess specific assets and knowledge as the dominant element of the theoretical economic culture. All these allowed us to identify the object and probabilistic result of institutional design with a company participation, focused on the transformation of cross-cultural factors into sustainable competitive advantage. Meanwhile, the formalized and non-formalized cross-cultural factors have been determined.

The authors have outlined the functions performed by cross-cultural factors in the company external environment, namely: innovative (stimulating the development of new and effective implantation of imported institutions and organizations), restraining (conservation actions and

adaptation restriction for ineffective institutions and organizations), restrictive (defining the company boundaries as a network of relative contracts based on the transaction costs regulation of contraction) and axiological (value-normative environment design). This allows to identify the causes of institutions development - endogenous (as a result of implementing the contradiction between the functions performed) and exogenous (due to changes in the cultural and value orientations).

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