



# PRIORITIES OF INSTITUTIONAL APPROACH IN DEVELOPING THE EFFECTIVE ECONOMIC MANAGEMENT SYSTEMS

**Mnykh Ye. V.,**

*Doctor of Economics, Professor, Head of Department of Financial Analysis and Control, Kyiv National University of Trade and Economics*

- A** *The priorities to ensure institutional approach to achieve high standards of quality and efficiency in economic management are discussed, and the opportunities to implement those in the public and corporate sectors are identified.*
- B** *Institutional approach, effectiveness of economic management, system of economic management, economic institute, professional competence.*

## ПРІОРИТЕТИ ІНСТИТУЦІЙНОГО ПІДХОДУ У ФОРМУВАННІ ЕФЕКТИВНИХ СИСТЕМ ЕКОНОМІЧНОГО УПРАВЛІННЯ

**Мних Є.В.,**

*доктор економічних наук, професор, завідувач кафедри фінансового аналізу і контролю, Київський національний торговельно-економічний університет*

- A** *У статті розглядаються пріоритети забезпечення інституційного підходу в досягненні високих стандартів якості й ефективності економічного управління та визначаються можливості їх реалізації в державному та корпоративному секторах.*
- B** *Інституційний підхід, ефективність економічного управління, система управління економікою, економічний інститут, професійна компетенція.*

## ПРИОРИТЕТЫ ИНСТИТУЦИОНАЛЬНОГО ПОДХОДА В ФОРМИРОВАНИИ ЭФФЕКТИВНОЙ СИСТЕМЫ ЭКОНОМИЧЕСКОГО УПРАВЛЕНИЯ

**Мных Е.В.,**

*доктор экономических наук, профессор, заведующий кафедрой финансового анализа и контроля, Киевский национальный торгово-экономический университет*

- A** *В статье рассматриваются приоритеты обеспечения институционального подхода в достижении высоких стандартов качества и эффективности экономического управления и определяются возможности их реализации в государственном и корпоративном секторах.*
- B** *Институциональный подход, эффективность экономического управления, система управления экономикой, экономический институт, профессиональная компетенция.*

### Statement of the problem

Efficient and effective system of economic management within different hierarchical levels, ownership, sectoral or regional orientation provides for joint and coordinated activities in many functional institutions. Nature of activities of these institutions is objectively determined, although in practice “reform” changes have occurred both in their internal structure and in cooperation with each other which led to duplication, inconsistency of actions in time and place dimensions, unclear responsibility for the consequences resulting from public and corporate governance. Over the last decade (2002–2012) the number of employees in the state management of the economy of Ukraine was more than 1 million people, or more than 5% of all employees in economic area, and the proportion of employees with academic degrees and

titles has almost doubled [2, p. 35], the number of those who were trained in enterprises and institutions of the leading countries of the world increased, but a new quality and effectiveness of management was not achieved. According to the state audit, the Ministry of Finance provides its function by 55%, the Ministry of Economy – 45%, and the Ministry of Labour and Social Policy – no more than 40% of their functions and responsibilities [1, p. 22]. However, the possibility of achieving a new quality exists, even on assumption that competition for each vacancy is about ten people. In the corporate sector, almost 50% of all works are duplicated in the units of accounting, planning and finance department, marketing and forecasting department, department of labor and wages and other departments. The amount of information collected, processed

and provided to different authorities in 2/3 is not used for real decision-making, but for regulated reporting, explanations and justifications in control actions (internal or external). Permanent declaring the need to eliminate certain institutions and reduce the number of employees in management is followed by developing “new institutions” and increases the administrative staff, leading to a loss of structural modeling in systems management, creativity in the work of management personnel, and as a consequence – incompetence, corruption and servility at institutions of economic management. Specific problems are not solved for years due to shifting responsibility on somebody else, and they do not get qualified assessment in court through the diversity of interpretations of the same phenomena and processes with regulations established by various institutions of governance. There is no general statistics for such phenomena, but expert estimates indicate a mismatch in interpretation of legal acts even in the same professional or private institutions.

#### **Review of publications on the subject**

The institutional approach issues in the economic management structuring were considered from the standpoint of economic theory in the works of national and foreign scientists: D. Doyle, T. Egertson, A. Chukhno, D. Hodgson, V. Razumov and others, and on the establishment of professional institutes such research was conducted by such scientists as: Zhuk V.M., Kuzminskyi Y.A., Malyuga N.M., Holov S.F., Oliinyk O.V. and others. However, adequate attention was not paid to the synergy of functional and professional institutions.

The **purpose of the article** is to justify priorities of institutional approach in shaping economic management on function and professional purposes.

#### **The main research material**

There are two approaches in addressing the issue to develop the high-quality management system at any level: the universalization of functional activity and differentiation and regulation of the activities of various management institutions. The more complex is the economic system, the higher should be the level of institutionalism. There are numerous institutional structure criteria, but the main between them is management effectiveness on the achieved performance results.

Finding an optimal model of economic institutions at the level of macro-economic management is often associated with the political situation and is acceptable for the final measurement of effectiveness. However, the practice of constant government institutions

reforming in Ukraine makes such efficiency unachievable. Activities of the Ministry of Finance and the Ministry of Revenue and Duties, various institutions of state financial control (State Financial Inspection, the Accounting Chamber, Treasury, etc.) and other institutions of public administration remain uncoordinated to a large extent. The division of functions in the work of state and regional (territorial) institutions in economic management is even more complex.

The selection and regulation of functional institutions at micro-level is driven by corporate interests, and in the private sector of small business the functional universalization with defining the single unit of economic management is a priority.

Institutional approach in developing a system of economic management is based primarily on the parameterization of all institutions at macro- or micro-level on the agreed criteria and factor dependencies with high-level reasoning. Implicitly there is a high demand for professional staff to develop and implement national development strategies in actual practice and development of specific industries, regions and businesses, problem solving and operational management perspective, finding creative solutions in unusual situations. This approach outlines clear system of responsibilities, accountability and communication that encourages self-development and qualitative changes, effective use of economic potential and growing interest in the economy modernization. It involves a dialectical unity of the whole system of management in the country.

One should be guided by the same criteria when allocating sectoral and regional institutions of state economic management. It is difficult to explain why between two regions identical in economic potential (Zhytomyr and Rivne region), in the first one has nine more economic institutions in line with each area (tax, financial, statistical and other institutions). In Vinnytsia region with a population three times less than Donetsk there are ten more of such institutions under each area. A clear separation of functions of various government institutions providing them with autonomy in collecting and use of financial resources can be a factor in fighting corruption, unreasonable centralized allocation of funds, to strengthen confidence in the activity of the institutions. To do this, first of all, the economic institutions' activity in the legal field should be settled, favorable conditions for their work as financially secure, self-sufficient and capable should be created. In this context, it is necessary to provide scientifically sound balance between centralization and decentralization of powers and functions of economic institutions in the hierarchy of state and corporate management. Some hope for

strengthening the central economic institutions at the macro-level of management appeared in connection with the Decree of the President of Ukraine № 1085 from 9 of December 2010 “On the optimization of central bodies of executive power”. However, results have not been achieved yet, and the so-called “new administrative reform” and “plan to modernize public management” can have the same story as the previous ones. According to international experience, reforming economic management, reducing staff and costs without scientific support of institutionalism produces a reverse effect.

Institutional approach at the level of corporate management is more pragmatic and effective. This very approach results in reducing the share of administrative costs in total costs of economic entities. Thus, the share of management costs in the industry declined by 60% over the last decade, in construction – by 75%, and in the transport sector – by 45%, etc.

There are various characteristics of this approach according to various entities regarding organizational structure and ownership. However, the environment of economic management clearly defines the single institution with the necessary structural management structure, where the activities of all departments have the appropriate level of coordination, functional independence and responsibility. The design of functional units is optimized for creativity and performance management. The basis for this design is the high professionalism of the staff and implementing the latest information technology and systems. Debatable in this context is the institutional approach for professional training in economic management. Following the logic of creating a single institute of management the priority should be given to training the managers in various fields (personnel management, financial management, tax management, investment management, etc.). However, most scholars and practitioners advocate the concept of strengthening the activities accountants, financiers, tax officials, bankers, tax collectors. Obviously, the truth is not in priority in the allocation of professionalism for economic institutions of various fields, but in developing the general and specific competencies sufficient to exercise professional activities of specialized institutions. This multilevel education for personnel under economic science-based plans for training and professional development is contributing to the institutional approach at all hierarchical levels of economic management. In educating and placement of human resources these institutions should establish selection not only on the availability of certificates and rated professional testing, but also for the professional growth of each hierarchical

level. Politicization and government protectionism are unacceptable in developing institutions of economic management. There are quite frequent cases where the unit of the Institute of Economic Management is completed by employees with no appropriate education (at best – with the degree as a second education of doubtful provenance) without professional experience working at different hierarchical levels, with no creativity estimates, with no recommendations and other components of recognition. Political loyalty and personal sympathy can not be recognized as determining factors in the establishment of such institutions. It is impossible to provide an accurate statistics due to confidentiality of information on these events and processes. However, the mass factors of such situations minimize the risk of misjudgments. The ex-Chairman of the Accounting Chamber of Ukraine V.K. Symonenko observes quite correct that “distinguishing moment of the day – it’s an absolute, irresponsible mess with staff at representative bodies, which just destroys the country. People do not hesitate to take any position... Power is the most lucrative business, and people are eager to get power by hook or crook – at any position” [1, p. 263].

Building effective institutions of economic management requires political will and funding special research on effectiveness of different models of corporate governance and management. One should avoid unreasonable imitation of foreign experience, but develop a cost-effective national model of institutions of economic governance and management. Strengthening the ethical principles of administrative activity can also be a determining feature in this process. Unfair competition, political lobbying and corruption raids have paralyzed the belief in honest and transparent business, honesty and fairness in decisions of administrative heads, the strategic perspective of qualitative change. It is unfortunate that this applies to the younger generation, a new generation of managers. According to a questionnaire survey, almost 70% of university graduates expressed the hope and desire to work outside Ukraine. It is a very alarming statistics.

However, there are positive developments regarding the competency approach in shaping the professional institutions on competitive selection process for positions at the Institute of State and Territorial Administration, on the effectiveness and quality assessments of staff. These trends should be kept and integrated with international standards of institutionalism.

Efficient activity of government institutions is one of the indicators for investment attractiveness and competitiveness. Ukraine is most unattractive on this indicator (120th out of 139 countries) and such assessment

resulted from: very low levels of management in public administration, high bureaucracy at all levels of economic management, weak property rights, political dependence of the judiciary system, and sound violation of the law. Significant steps were made today towards elimination of these effects in connection with the implementation of the strategy of Ukraine's accession to the EU. Rapid changes of a global conflict are not expected, but the "appearance of light at the end of the tunnel" – this is great progress.

### Conclusions

Institutional approach to develop an effective system of economic management – it's not a fad, but an objective necessity of a radical changes in forms and content in management activity of institutions, which is due to fundamental reform of economic relations in a globalized world. The choice of European integration in development actualizes the problem on all aspects of organizational and methodological support of economic institutions.

1. *Simonenko V.K. Five-year-plan "in bewilderment": Economic essay / V.K. Simonenko. – Kyiv : "Znannia", 2011. – 428 p. [in Ukrainian]*
2. *Statistical Bulletin. – Kyiv : the State Statistics Service of Ukraine, 2013. – P. 35. [in Ukrainian]*

1. *Симоненко В.К. Пятилетка «враздрай»: Экономические эссе / В.К. Симоненко. – К. : «Знання», 2011. – 428 с.*
2. *Статистичний бюлетень. – К. : Державна служба статистики України, 2013. – С. 35.*

Дата подання рукопису: 22.10.2013 р.