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## **ECONOMIC CONTROL BY CIVIL SOCIETY: AN INSTITUTIONAL APPROACH\***

*The mechanism of economic control by civil society has been suggested. This follows from the concept of sustainable development and the theory of systems, actualizes the interests of man and society and triggers processes for the self-realization of enterprises, including self-control. Publishing analytic information is considered to be a corrective procedure. It has been concluded that civil control should be a strengthening factor for social institutions and market.*

**Keywords:** economic control; control activities; sustainable development; civil society; social structure; isomorphism; social institution; social capital.

References 16; Figures 2; Table 1.

Last year Ukraine went through 25<sup>th</sup> anniversary of creation of market economy and democracy state. In connection with it many leading economists of the country have formulated their opinions regarding difficulties encountered and prospects of overcoming it. Summarizing research papers it can be said that weak development or in some cases even absence of community institutions impede Ukrainian market economy success.

According to Ukrainian academician V. Heyets's opinion, the domestic economy development depends on social capital and institutions of European democracy. The tendency towards strengthening the democratic tools of business control to overcome monopolism of big capital that has to a large extent privatized the state itself is expedient and acknowledged in modern globalized World [1].

Significance of community institutions for the Ukrainian market economy success and huge relevancy of it for Ukraine are emphasized by many famous native economists: V. Wishnevskiy, V. Heyets, M. Zveryakov, V. Budkin, B. Danilishin, Y. Kindzersky etc. Special attention is paid to the necessity of developing such institutions as private property, stock market, corporation including industrial corporation and small and medium-size enterprises, community trust, honest competition, law and moral, civil society. Scientists describe institutional issues: small quantity of effective owners aimed at business modernization and deepening of raw material processing which are able to assemble finance for it; nontransparency of business is unattractive for investors; weak legislation allowing corruption; connections between enterprises depending on governance and/or oligarchs; moral downfall expressed through rent-oriented behavior [1-7]. Important conclusion is that existing

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economic system is stable and it is reproduced thanks to support of definite social groups receiving extra profit under these rules, first of all, corrupt officers and oligarchs [4]. Consequently, situation can be improved via activation of other social groups namely by developing civil society, small and medium-sized businesses and overcoming of inertia of people [1, 3, 4, 6, 7]. Attention is drawn to solidarity as the machinery of involving folk in construction of domestic economy [8]. Historic analysis of development of capitalism through long evolution of community institutions and man culture is carried out. At the same time, warnings are being made that countries adopting laws suitable for other historical conditions are not getting the same results that the other states have, where these laws are borrowed from [3, 6]. I. e., taking into consideration experience of others countries it is necessary to create one's own approaches. As it is written in UNIDO declaration (2013), each state is responsible for its own development and has the right to choose its own ways and strategies.

**Purpose of this paper is** looking for new forms and mechanisms of civil society participating in sustainable development of enterprises and native economy as well; stating definition of economic control by civil society using institutional approach.

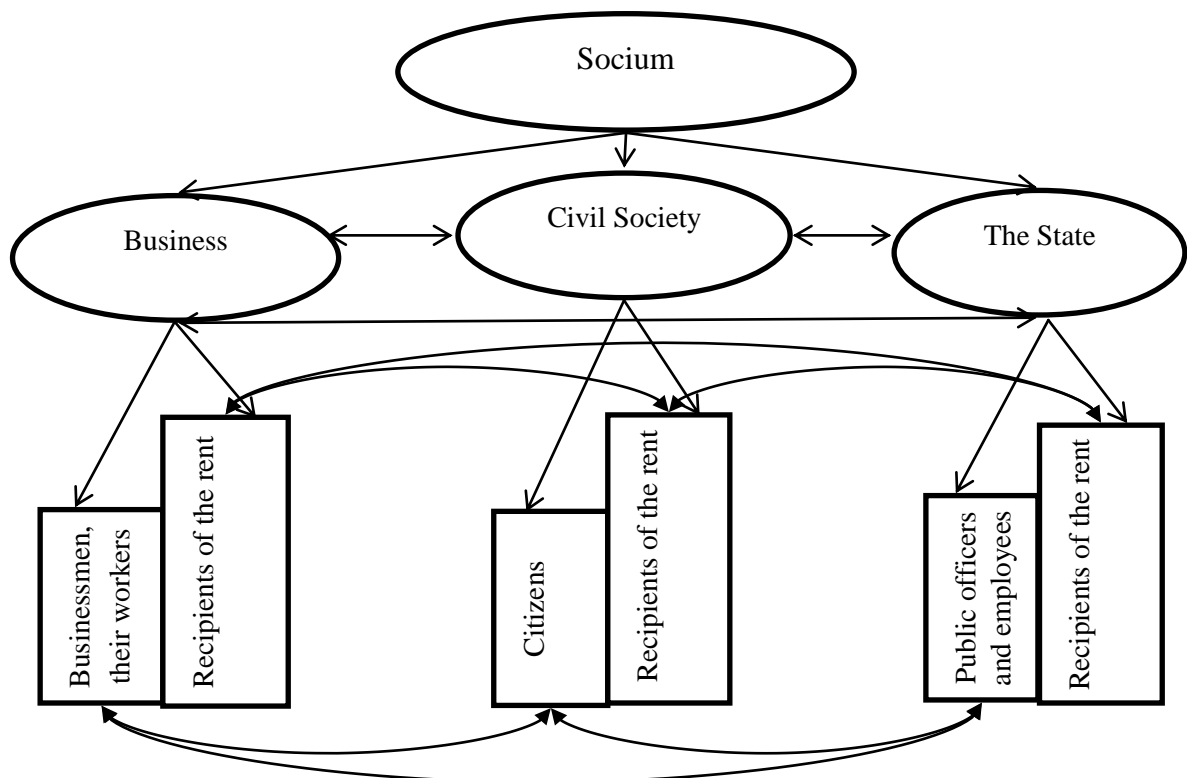
American anthropologist and sociologist of Hungarian origin K. Polanyi investigated development of capitalism in West Europe since XV to XX centuries and concluded that market can't function without market machines which can't arise from self-regulative market. Behavior principles that to a large extent determine the results of economic activity transformed into rules (i. e. – became institutions) not due to economy but with the aid of social organization. German philosopher and political economist K. Marks argued too that community institutions are products of historical development.

French sociologist and philosopher E. Durkheim suggested the idea that social institutions and social groups make up social structure of society. Institutional theory, along with the social structure, also considers the relations between its elements and the mechanisms forming them. M. Weber, German sociologist and political economist, analyzed the organizational mechanisms in society such as the market, bureaucracy (private enterprise management and public administration) and politics (for example, democracy). Probably, his works are the basis for modern view on modern society as a triune structure of business, the state and civil society.

Since the structure of an object is the key to understand its properties, and, consequently, to manage it, the attempt to find most common features for dividing each of the three main social groups into subgroups was made. For this purpose we returned to works of French philosopher A. Comte, who emphasized paramount importance of spiritual order in society or order of moral values called to determine social hierarchy. Comte analyzed capitalist industrial society and connected implementation of its basic law - growth of wealth - with harmonization of interests of employers and employees. He considered private property to be imminent, necessary and useful, but tolerable only when it is perceived not as the right to abuse, but as realization of collective function by men of destiny or by those, who thanks to their abilities have achieved economic prosperity. Other scientists also paid attention to the topic of morality. M. Weber in his studies argued that the values of individuals determined the results of their activities, and in total of the whole society. E. Durkheim assumed that people were inherently selfish, but norms, beliefs, and values constituting collective consciousness form the moral basis of society, which ensures social integration. P. Proudhon believed that

labor should be free for all people, and this freedom means that everyone equally should work for society. A. Fergusson described the history of formation of civil society from savagery and barbarism to civilization, using as a criterion the predominance of certain values. The modern Argentine philosopher, physicist M. Bunge, writes that social problems are caused by ethical problems [9].

Based on abovementioned scientific heritage it is possible to state a common structure-forming feature for the Ukrainian society: quality of performance of functions of definite social group formulated by representatives of other two social groups, and observance of moral norms. To achieve a high level of development of society, it is fundamentally important what motives prevail: obligation and honor or personal enrichment. According to this classification, state sector consists of honest servants and personally motivated officials, business - from entrepreneurs and beneficiaries, civil society - from citizens and inhabitants (conformists) [10]. Similar patterns of behavior can be distinguished as conditioned by availability of social capital and rent-oriented [11]. Prevalence of moral values in society can cause sense of satisfaction from professionally accomplished work as well as civil unity and joyful perception of life in general despite current economic difficulties, which is profoundly humane. Additionally, strengthening of morale can probably push the poverty line for many people. In view of these considerations, the structure of society can be shown in this way (Figure 1).



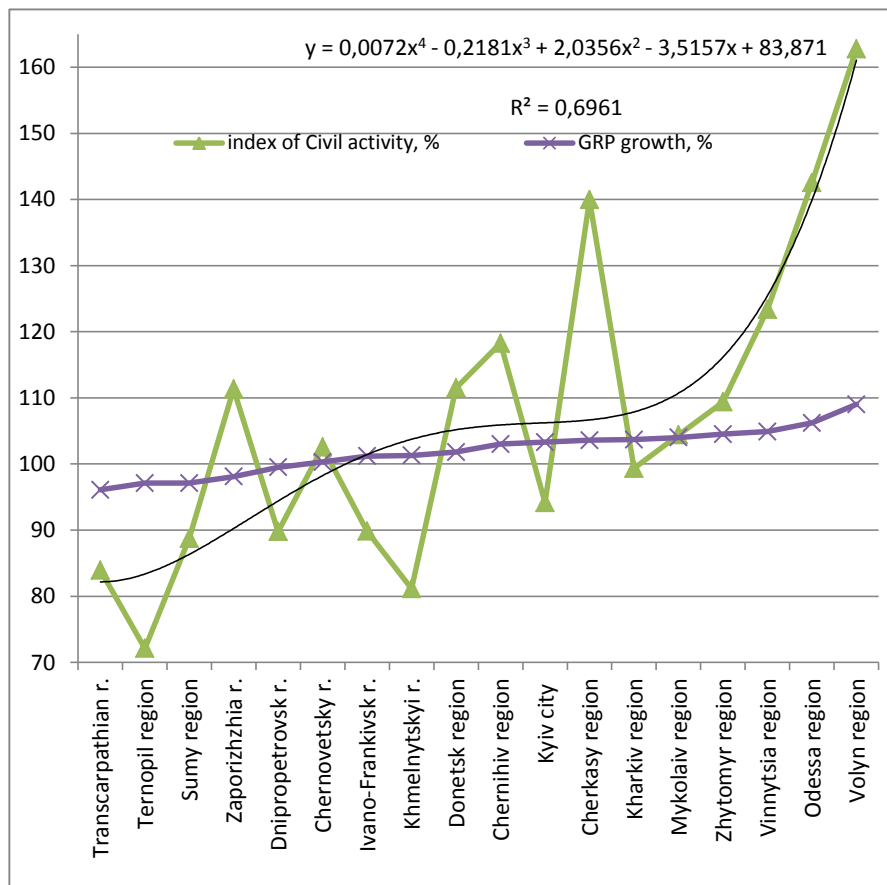
**Figure 1** The structure of modern society taking into account rent-oriented behavior

As common structure-forming criterion has been found for all three main groups of modern society, their structures turn out to be similar, and we can speak about isomorphism of social

structure. To this concept the author was wised by the phrase "institutional isomorphism" in the title of the article by American sociologists P. DiMaggio and W. Powell [12]. Although after reading the article it turns out that it is about the similarity of the structure of enterprises (institutions) of the same organizational field, the compulsory mechanism of law, the normative mechanism of professional opinion and the imitative mechanism of positive practice causing this similarity are true for the author's more general structure of society. Since the law, professional opinion and the attractiveness of positive practices are social institutions, the described mechanisms are called institutional isomorphism.

The phenomenon of isomorphism is described by different sciences. It relates to the same structure of various and remote in systematical relation organisms in biology, crystals in chemistry, language plans in linguistics, groups and other systems in mathematics. Common structure entails similar properties, and that fact allows knowledge of some objects to be transferred to others. Moreover, in chemistry the doctrine of isomorphism is the basis for studying the processes of concentration and scattering of chemical elements in the Earth's crust. Continuing the subject author puts forward hypothesis that the increase of share in one of the three main social groups of those people, who are actually guided by professionalism and moral values, rather than personal enrichment, will lead to similar changes in the other two groups, which will positively affect development of society in general. It is important that growth of social activity within civil society can lead to positive shifts in both business and the public sector.

The advanced hypothesis can be verified in first approximation by comparing statistical data of growth of civic activity and gross regional product (by physical volume) (Figure 2). For 18 regions of Ukraine and Kiev in 2016, the correlation coefficient between these data sets was 0.78. Civic activity was figured out the product of number of members registered in civil organizations, averaged over the year, and the money they spend. The trend line indicates that the growth of civic activity positively affects the growth of GRP. It is necessary to take into account that social capital (the human factor) is difficult to measure quantitatively.



**Figure 2** Comparison of civic activity and gross regional product

Calculated by author according to the State Statistical Service of Ukraine [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua)

Further it is appropriate to dwell on a definition of corruption, which is one of the main reasons for poor economic indicators. According to the Law of Ukraine "On the Prevention of Corruption" it is abuse of official position for personal gain, i. e. corruption concerns not only state and local officials, but also management in business too. Getting bribes by bureaucrats and deducing money from legal turnover by business are links of one vicious chain.

One kind of social activity is economic control of public reporting of enterprises and other public data. Such control is possible by scientific and professional communities. It can be promoted by local administrations and non-governmental public organizations through providing their Internet resources for the dissemination of its results and by partial funding. On the other hand, a new type of control requires the development of a theoretical framework. In the specialty passport 08.00.04 "Economics and management of enterprises (by types of economic activity)", approved by order of the Higher Attestation Commission of Ukraine in 2007, there is research direction "The place and role of non-governmental organizations in the liberalization of entrepreneurial activities" concerning the affected issue. However, over past ten years, none of dissertations has been carried out in this direction. At the same time, the directions "Management of production and economic activities of enterprises (management)" and "Controlling, monitoring and diagnostics of the activities of enterprises" are actively

developed by Ukrainian science. Information base for control of economic activity by civil society was previously written about [10]. It is important that according to Ukrainian legislation financial and tax reporting is not a commercial mystery. Thanks to recently adopted amendments to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" in the near future substantial addition of pertinent information is expected at the expense of large and medium-sized enterprises of all organizational forms of management. These observations confirm relevance of the selected research topic.

Obviously content of modern control must meet the latest social and scientific transformations. So, according to the concept of sustainable development evolving under patronage of the United Nations, control should meet the interests of all stakeholders [13] \*, and it is better when each social group independently formulates and disseminates its own interests, because when information is transferred from one subject to another, its content can be significantly distorted [10]. Taking into account the interests of society by business can become a motive for increasing labor productivity and synergy of contributions of different social groups. According to theory of systems one of the main factors in development of an enterprise is the increase of information and awareness, which trigger mechanisms of self-organization [14]. Then control of economic activity by civil society can provide enterprises with necessary information to activate internal self-control processes. Corrective tools are to publish the results of analysis of accomplished economic operations. Here it is appropriate to recall the motto of central American newspaper Washington Post "Democracy is dying in darkness". The new type of control supplements corporate control, external audit and state control. Examples are given in paper [15]. The proposed control system makes it possible to realize decent standard of living in accordance with the UN Declaration of Human Rights. It is shown in Table 1.

**Table 1** System of economic control

Types of control	Corporate control and external audit	State control	Civil control
Executors	Business	The State	Civil society
First-priority objective	Receiving of profit	Strengthening power hierarchy	Developing of person and society, incl. economy
Results	Strengthening community institutions such as law, moral, civil society, property, honest competition, industrial corporation, etc.		

In order for these campaigns to become common practice, we must use the institutional mechanisms of digital age described in a new article by W. Powell et al. [16]. For newly emerging fields with still unformed values, this is persuasion in the correctness of new approaches through the wide circulation of information, the convocation of supporters through the conclusion of contracts and the strengthening of positions through cooperation with funds. It is about formation of institutions. The detailed definition of social institution was given by American sociologist and economist, founder of institutional direction in political economy Thorstein Veblen. According to definition, a community or social institution is a form of organization of joint vital activity of people, historically formed or created by purposeful efforts, the existence of which is dictated by the need to meet the needs

of society as a whole or a part of it; institutions are characterized by their ability to regulate the actions of individuals, stimulating desirable and repressing undesirable behavior \*.

**Conclusions** Thus, the market economy works successfully in combination with community institutions born as result of social behavior and cultural evolution. When economic control is filled with abovementioned content and become a common practice, it will be viewed as a factor of institutionalization. It will likely have a positive impact on country's foundations as a whole, strengthening its institutions such as law, morality, civil society, private property, honest competition, industrial corporation, etc.

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