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THE INSTITUTIONAL ENVIRONMENT OF SMALL BUSINESS: OPPORTUNITIES AND LIMITATIONS

Abstract: The article examines the development of entrepreneurship in the context of institutional conditions that create an environment for doing business, determine the volume of transaction costs associated with the implementation of standard procedures of the state regulator. The stages of formation and functioning of the institutional environment of entrepreneurship are analyzed. On the basis of the conducted retrospective analysis, the author's interpretation of the institutional environment of entrepreneurship is given. The economic consequences of the functioning of institutions are investigated in detail. The author has proved that the final effect of the set of role functions of the institutional environment is its influence on the process of forming preferences among small businesses. The condition of its stability is the satisfaction of all individuals and organizations (subjects of the political market) with the existing distribution of power and control over resources in the economy.

Key words: business, institutionalism, institutional economics, institutional environment, organization, entrepreneurship.

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Introduction

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The institutional environment determines the relative impact of various forms of entrepreneurial activity and their activities' directions. The accepted rules of the game mainly condition the means of achieving the goals of entrepreneurial structures. Therefore, if society wants to increase productivity, state authorities must form such an institutional environment, which creates a system of incentives for entrepreneurial activity and guarantees the freedom and safety of this activity in institutional conditions. This, in turn, requires an analysis of the formation of institutions regulating entrepreneurial activity and assessing the degree of influence of small business entities on the formation and development of the

institutional environment [1,2,3]. We proceed from the fact that small business entities' activities and the actions of the institutional environment components are interdependent and interrelated.

In general, the improvement of institutional conditions for the development of small business is an urgent problem of the country's current stage of economic development and an understudied area of research in domestic economic science [4,5].

For the first time, institutional environment and institutional agreement were introduced into scientific circulation in 1971 by L. Davis and D. North. Subsequently, the place and role of these terms in the institutional paradigm were clarified by O. Wilson (in "A Comparison of Alternative Approaches to the Analysis of Economic Organization"), who divided all existing theories into two major blocks: technological

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(neoclassical theory) and organizational (institutional theory). Technological theories explore the non-contractual direction of production theory, looking at the firm through the prism production curves. In turn, various branches of institutionalism analyze the firm as a set of contractual relations. Among them, we can distinguish the theory of property rights (theory of property rights), agency theory (agency theory), transactional economics (transaction cost economics), the conceptual basis of which is the institutional environment and institutional agreements (contract). Thus, the theory of property rights studies the institutional environment of economic organisations' activities in the economy's private sector and the theory of public choice - the institutional environment of individuals and organisations' activities in the public sector.

The definition of "institutional environment" proposed by L. Davis and D. North has not undergone any significant changes in the substantive aspect. The institutional environment is a set of fundamental political, social, legal and economic rules, which form the basis for the production, exchange, distribution of economic goods [6]. This environment affects relations and connections between economic subjects (entrepreneurs), forming an institutional arrangement (agreement).

M. Lapusta in his works uses the term "institutional-organizational environment", which is a set of institutions (organizations) that provide appropriate services to other business organizations. Among them he includes commercial banks, credit and financial organizations, etc. [7]. Domestic scientists offer to understand the institutional environment as the existing infrastructure to ensure the functioning, development and support of business entities (commercial banks, insurance organizations, educational institutions). In our opinion, the interpretation of the institutional environment as a set of organizations working in providing services to business entities seems narrow, as L. Davis and D. North under institutions still understand, primarily, the rules governing the interaction of economic agents.

Other scientists generally offer to use the concept of "institutional infrastructure", which is understood as a set of fulfilled and legalized norms and ways of behaviour in their "constitutional reality", their actual state aligning economic activity conditions for different subjects entering into economic interaction [8]. In our view, the latter concept reflects the properties of the institutional environment's components, which are accepted and performed by business entities, and in no way, concept can replace the concept of the institutional environment.

The normal functioning of the market economy is based on the presence and observance of certain norms, the "rules of the game" created to ensure the

best balance between transaction costs and the benefits of exchange and division of labour. Therefore, in modern interpretations of the institutional environment is represented:

- as a set of rules of the game or the environment in which the choice of rules of the game (social, legal or political) is possible;
- as the process of shaping the "rules of the game" in the economy's public or private sectors.

Our theoretical analysis shows that the content of the institutional environment derives from the essence of its components. The institutional environment's basic component are institutions, which is understood as a wide range of heterogeneous objects as they are called: language, ethics, religion, family, money, market, social conventions, customs, routines, internal order of the organization, legal norms, contracts, social order, political parties, universities and more. As a consequence, there are many definitions of the institution in the literature. While giving it different meanings, economists nevertheless associate institutions with a stable stereotype of people's behaviour and the framework of interaction that people consciously develop and adhere to. Thus, J. Commons understood "institutions" as collective activities designed to control individual activities that are pervasive [9]. However, most scholars unanimously assert (especially proponents of the new institutional economic theory) that D. North's definition of institution is the simplest and most correct. He understood "institutions" as "man-made restrictive frameworks that organize the interactions between them" [10]. Even though the institution is a conscious activity product, a distinction is made between institutions' artificial and natural origin [11]. On this point, B. Shavans writes that an institution at any moment after its formation acts as a hybrid, a product of conscious and unconscious processes; that is, at no subsequent point in time does the institution develop exclusively organically and spontaneously [12]. Consequently, institutions of natural origin have inherently conscious elements, and they emerge in part as a result of conscious processes. At the same time, they cannot be seen, felt, or even measured because they are constructs, the "rules of the game" in society.

In turn, in the definitions of M. Deryabina and G. Kolodko, it seems to us, the boundaries between the concepts of the institution and institutional environment are blurred. Thus, M. Deryabina writes that "institution is a set of rules and norms, as well as mechanisms for their implementation, with the help of which relations and interactions between people and organizations are structured and simplified [13]. According to G. Kolodko, "institutions are the rules of the economic game (market game) established by law or organizations that ensure compliance with these

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rules by all economic subjects, using incentives, rewards and punishments [14].

In our opinion, the essence of the institutional environment's components is most accurately revealed by the definition of A. Shastitko. He writes that: "institutions are formal and informal rules created by people, as well as mechanisms that ensure their observance (enforcement). Mechanisms ensuring compliance with the established rules become a component of society's institutional structure because the rules perform the function of restrictions in a situation of choice only when they are valid, functioning" [15].

However, institutions do not determine a person's behaviour entirely but only limit the set of alternatives from which an individual chooses one according to their goal function. Also, institutions do not refer to the individual but to his interaction with other people. The main purpose of institutions and the meaning of their functioning is to organize the relationships between people. Institutions arise in the process of human interaction, and institutions determine the latter. They have a dual nature: on the one hand, they establish the framework for economic behaviour, and on the other, they act as a factor that facilitates the implementation of economic activity. It follows that they are created to:

- ensuring the predictability of the results of a certain set of activities brings stability to economic activity. Following one institution or another makes it possible to count on a certain result with measurable costs of achieving it;

- ensuring the freedom and security of activities within certain limits, which participants in economic relations extremely appreciate;

- saving transactional costs.

Identification of the essence of the concept of "institution" allows us to proceed to the characteristic of the institutional environment's components. Structurally, they can be classified according to two general features: according to the fixation method and according to the hierarchy.

According to the fixation method, institutions are fixed in written law and institutions fixed in unwritten or customary law - traditions, customs, and taboos. The former are called formal rules, while the latter is called informal rules. Thus, the institutional environment is a complex unity of formal and informal rules. Its first part consists of a system of formal economic institutions created by the state and aims to regulate the activities of legal entities and individuals. The other part is the informalized (*de facto*) sanctioned rules of behaviour of entrepreneurs.

According to the hierarchical structure, we distinguish between supra constitutional, constitutional, and economic rules, formal and informal. Hierarchy implies the hierarchy of rules, that is, the presence of subordination between them. Thus, the law defines the principles and strategy, while

subordinate acts concretize these principles into action algorithms. This example demonstrates compliance with the principle of the substantive ordering of rules: the norm of a lower order clarifies and reveals the content of the norm of a higher order. In economic terms, the development and implementation of higher-order norms are much more expensive than lower-order norms.

Supra-constitutional rules or the so-called "meta-rules" are mostly informal and significantly shape the hierarchy of values shared by society's general strata, people's attitude to power, and mass psychological attitudes. In our view, national culture belongs to the category of "meta principles", and it can be presented as a set of informal institutions (rules), expressing the specifics of the state structure of a particular country and directly affecting the efficiency and effectiveness of the institutional environment of small business. For example, in the business community, peculiar informal rules have been formed that determine business and informal ties. Connections are established depending on the degree of proximity to the sphere of business and the level of material well-being. In the everyday consciousness, it acquires the outlines of the image of "a man of our circle" or "a man of our circle". Business people may trust the former and be wary of the latter.

A distinction is made between the economic and legal meaning of constitutional rules. The economic interpretation of these rules is much broader than their legal interpretation, characterized by rigour and narrowness of presentation. For example, the rules of succession to power in monarchies take custom or tradition, while voting in elections is legislated. Constitutional rules apply both at the level of the state and the level of enterprises.

At the state level, constitutional rules establish the type of state structure; second, the procedures for forming government bodies (ministries, departments, agencies, etc.); and third, the forms of public control of state actions. Constitutional rules at the enterprise level are in the form of a charter or code.

Economic rules directly determine the forms of economic activity within which economic agents enter into contracts and make decisions about the use of resources. Examples of economic rules are registration and liquidation of small business entities, economic transactions, monetary circulation, export-import transactions, etc.

Thus, in our opinion, a small business's institutional environment is a set of basic institutions acting within the given parameters and defining matrices of economic behaviour of subjects of a small business based on choice restrictions. This institution consists of formal and informal rules, differing in their hierarchical structure as meta-rules, constitutional and economic rules. They aim to create conditions for the timely conclusion of contracts, saving transaction costs, the predominance of legal transactions over

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illegal ones, and having a positive impact on productivity and investment growth.

The state forms formal components of the institutional environment, and each of them has a purpose of existence (i.e. the purpose of these rules), the scope of application, available content, the period before the change, the cost of functioning, the degree of rejection or acceptance of the introduced norm, resistance to mutation (i.e. the measure of the stability of the institution to its transformation into some other form). A change in one of the parameters of a functioning institution concerning an economic system may entail serious macroeconomic consequences [16]. Each market institution is assigned regulatory mechanisms and structure-forming elements to prevent undesirable consequences, i.e. organizations responsible for executing these rules.

In his concept of the "world of institutions," Kleiner writes that each institution consists of the following groups of norms:

- a group of basic norms expressing the essence and basic provisions of the institution (the core of the institution, which persists throughout the life cycle of the institution);
- groups of additional norms that are part of the "protective layer" of the institution and allow, depending on external circumstances, modification and replacement without changing the core of the institution;
- a group of auxiliary supporting norms that define mechanisms for monitoring, controlling, and supporting compliance with the norms of the core institution;
- a group of value norms related to the assessment of the institution by society and individuals (both those who are subject to the institution and "outsiders" observers);
- a group of cognitive norms regulating the process of perception and cognition of these norms' essence and action by various subjects [17].

Theoretically, these parameters should ensure the creation of an effective institution. Efficient institutions create incentives that ensure economic growth. "And the question of which institutions, in this case, will be effective is not of fundamental importance. In other words, institutions turn out to be free goods that automatically ensure efficient resource allocation and economic growth by creating new opportunities for production [18]."

At the same time, the effectiveness of the institutional environment's components is primarily achieved at the expense of the rules that ensure the specification of property rights. Market exchange implies an exchange of property rights, i.e., one entrepreneur alienates his rights, and the other accepts them on mutually beneficial terms of the transaction. In this situation, the state is assigned the role of guarantor of property rights. Property rights are

obtained by the entrepreneur acting following the requirements of economic rules. The rules, sanctioned by society, are recognized as property rights. Property rights, in turn, structure the repeated interactions of entrepreneurs regarding the production, exchange and distribution of economic goods. The smooth functioning of the contracts system reduces the uncertainty of the future and coordinates economic agents' actions.

For the entrepreneurial process to run efficiently, the level of uncertainty must be within some reasonable limits and must be limited both from above and from below. A minimum level of uncertainty is ensured by the existence of commodity-money relations and contracts. Contracts, in turn, are the source of relative property rights. They exist at the level of firms and concern entrepreneurs entering into cooperation or competition with each other. The maximum level is associated with establishing the framework of economic activity, determining the boundaries of the use of economic resources. Receiving a socially recognized form, they are transformed into absolute property rights, that is, into an institutional environment.

Together, absolute and relative property rights constitute a system of property rights. In a narrow sense, the system of property rights, according to T. Eggertsson, is a set of methods for granting specific individuals "authority" in choosing any way to use specific goods from the class of non-prohibited goods [19]. In a broad sense, the system of property rights, according to R. Kapeliushnikov, is a system of exceptions to access to restricted goods that operates in society, setting the matrix of interactions between those who have no access to the resource and those to whom it is open [20].

Let's say that certainty of property rights is important for the successful organization of entrepreneurial activity. Scholars write that there is considerable evidence that it is from the vagueness and uncertainty of property rights that a certain range of individuals derive the greatest benefit. When the state poorly protects property rights, rent-seeking behaviour becomes much more attractive than productive activity. People whose wealth is obtained in the process of rent-seeking use their considerable political influence to maintain the "status quo" in the protection of property rights. This, in turn, forces others to invest in individual protection of property rights, diverting them from production. This vicious circle is perhaps the main reason why the post-Soviet states do not fully protect property rights [21]. Obviously, under such conditions, it is the small business entities, which do not represent a serious political force to influence the government, that suffer the most.

Nevertheless, for the further development of small business, the improvement of the contract law is important. Entrepreneurial structures of Japan,

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Germany, France, the USA and other industrially developed countries function in contractual relations. With the contracts' help, firms are putting down deep roots in business, mastering new spheres of activity and territories, successfully adapting to NTP. Nowadays, the firm's efficiency is the higher, the more effective the system of its existing contracts is. They reduce direct and indirect costs, creating the basis for lower prices for goods and services. A favourable environment is considered the one where the contract law is more sophisticated (Japan, France, USA, Germany), where arbitration is established. The conditions of the concluded transactions are not constantly revised. The system of transactions is supplemented by trust agreements based on the code of honour of a businessman. In Kazakhstan, contract law exists. However, the main part of entrepreneurs lacks legal and economic knowledge to prepare and conclude complete contracts. The system of arbitration is at the stage of formation.

Besides the specification and protection of property rights, the rules regulating monetary circulation, taxation, and access to certain markets are extremely important for small business. Together and separately, they contain fiscal, stimulating and regulating mechanisms of small business development.

The institutional basis for business operations' performance by operating entities is the accounting standards and the General Chart of Accounts of financial and economic activities. They are developed following the requirements of international standards and aim to facilitate mutual settlements with counterparties and work with financial and credit organizations. However, the small scale of some small businesses' activities, such as, for example, individual entrepreneurs, implies the application of rules with simple requirements. Therefore, a system of patents and simplified forms of declarations are specially designed for them.

The system of financial market institutions is aimed at balancing the flows of "savings - investments". It includes a wide range of sub-institutions (the securities market, insurance, taxes). In particular, taxes are instruments of redistribution and are designed to "dampen" the resulting failures in the distribution system, stimulate or restrain the activities of certain economic subjects. The nature and rules of deductions of taxes and various kinds of payments, reflecting on the level of residual income, affect small business investment opportunities. Scientists have repeatedly emphasized that excessive "regulation" in high taxes and social transfers discourages entrepreneurial activity in the legal economy. Therefore, there is a "soft" procedure of taxation and a system of sanctions for their violation for small business subjects, otherwise called a special tax regime.

The rules of monetary circulation must ensure price stability, which affects entrepreneurs' economic transactions and is reflected in the basic conditions of contracts.

Institutional environment, forming the conditions of competition on commodity markets and financial services markets, aims to implement the main directions of anti-monopoly policy, consisting of legislative acts that define the rules of interaction of market subjects and mechanisms compliance with the established rules. The main directions of the anti-monopoly policy are considered to be:

- direct state regulation, which is the organizational and legal basis for the prevention, limitation and suppression of monopolistic activity;
- monitoring the state and level of concentration of commodity markets;
- promotion of commodity markets and competition (i.e., elimination of administrative and inter-regional barriers);
- control and monitoring of business entities with a dominant position in the market;
- suppression of unfair competition;
- support for small businesses, etc.

The extent to which the state manages to implement the directions mentioned above of antimonopoly policy determines competitive relations and qualitative characteristics of competition on commodity and financial markets. The index of competition institutions' efficiency is economic freedom, financial risk and investments, trust index.

In general, the restrictive framework of economic transactions, ordering the interaction of all market subjects, affects both the structure and level of costs and the productivity of small businesses. On this basis, scholars have divided the rules of economic activity, which are institutions, into three groups [22]:

- contributing to the creation of value, that is, determining the optimal ways of using resources while eliminating the options chosen by limitedly rational business entities;
- redistributing created value while maintaining a low level of transaction costs associated with the process of value redistribution;
- that impede the creation of value.

Unfortunately, entrepreneurial activity within the law framework is not always accompanied by savings in transaction costs (TAI). Among institutions, there are inefficient rules that suppress business activity and economic initiative and, consequently, narrow the number of participants in the market, as they form artificial barriers to enter the market.

For the sake of clarity, let us construct the following algorithm. According to Fig. 1., we can see that in the economic system, there is a continuous mass, decentralized process of economic agents' choice of various forms of institutions, namely norms and rules for economic transactions. The algorithm for

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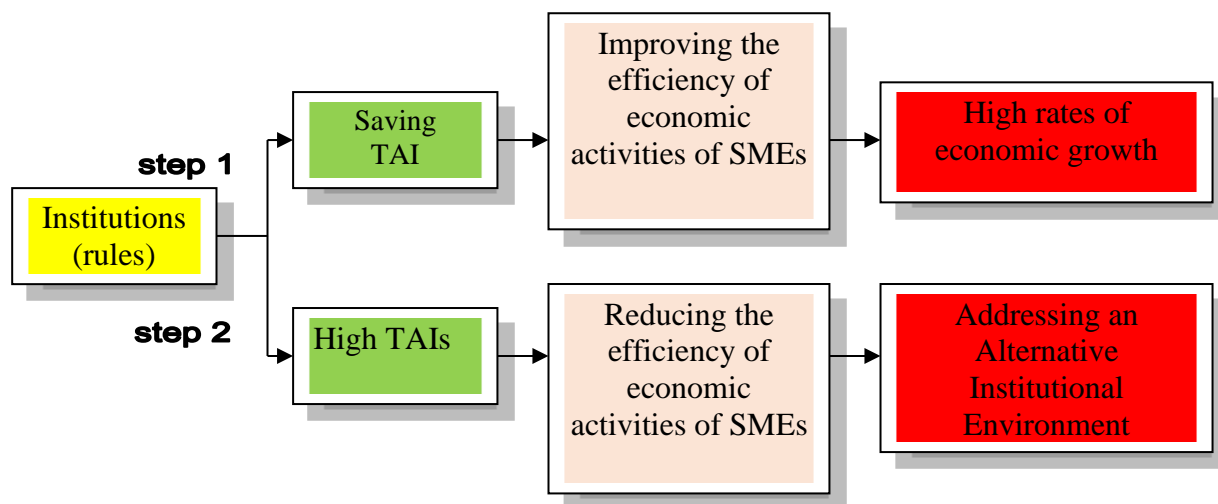
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step 1 assumes that the national economy has Pareto-optimal institutions through which economic actors achieve high productivity and profitability. However, economic agents are not always satisfied with the formal rules in place. Because of dissatisfaction with the "formal rules of the game," entrepreneurs begin to look for other ways to exchange property rights. As a result, they turn to an illegal system of rules (step 2), which is more appropriately referred to as an alternative institutional environment.

The entrepreneur's decision-making process is based on a cost-benefit comparison of one or another type of restrictions on the possible ways of using resources. High transaction costs within the framework of official laws, norms and rules are among the main institutional factors of illegal economic activity. Entrepreneurs carry out *business operations bypassing the norms of "written" law but within the informal rules of business turnover using alternative conflict resolution mechanisms.*



Note - Compiled by the author.

Fig.1. Economic consequences of functioning institutions

The main reasons they turn to an alternative institutional environment are:

- a very high nominal cost of compliance with laws and regulations that are highly detailed and complex;
- low degree of specification and protection of property rights;
- asymmetry of information;
- a strict system of legal sanctions for violations of the rules.

The alternative institutional environment differs from the formal one. It consists of informal institutions regulating the conclusion of implicit contracts with an effective enforcement mechanism (enforcement of the rules). Its advantages lie in the existence of *simplified schemes of contracting with an effective system of enforcement*. The guarantor of implicit contracts' execution is not the formal legal system but the patron structure or the so-called "roof".

In the post-Soviet space, the system of institutions of the illegal sector was formed simultaneously to create a system of legal institutions. Simultaneously, the composition and structure of alternative institutions are quite different from the system of rules of the shadow economy of the Soviet period. A large part of today's illegal economy

institutions formed spontaneously during the period of institutional chaos in the early 1990s, while another part was formed through denormalization of the rules in subsequent years.

Examples of spontaneously invented rules are institutional forms of transactions on the delivery of goods *with prepayment, barter form, verbal agreement between the employer and the employee*, etc. These rules were not fixed in writing, were based on the participants' involuntary trust and provided internal standards of behaviour mandatory for entrepreneurs. They arose from the information transmitted through social contacts and a generally recognized informal institutional form over time.

The main features by which we can distinguish between formal and informal rules of the institutional environment are:

- *the nature of origin*. The system of institutions of the official economy results from conscious design, while the institutions of the illegal sector mostly emerge spontaneously by evolutionary selection. This conclusion agrees with the opinion of K. Menger [23], who pointed out two ways of development of socio-economic institutions:

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▪ a) practical - constructivist, in which institutions are created by people consciously, based on a special decision (rational choice);

▪ b) evolutionary, that is, as a product of evolutionary selection [24];

▪ *structural relation*. The system of institutions of the official economy represents "rules," while the institutions of the illegal sector represent "norms" and "rules. The norm itself is a prescription of certain behaviour, mandatory for implementation and having as its function the maintenance of order in the system of interactions. Its obligatory structural elements are attribute, the factor of obligation, purpose and condition [25]. Along with them, the rule is accompanied by real or symbolic sanctions and rewards [26];

▪ *mode of entrenchment*. The system of institutions of the official economy is enshrined in written law and secured by legal guarantees, while the institutions of the illegal sector represent unwritten law and are based on ostracism, loss of reputation;

▪ *the level of costs of creation and introduction*. The costs of creating the institutions of the formal economy are high compared to the costs of creating the institutions of the illegal sector;

▪ *the speed of change in institutions*. Changes in the formal economy institutions are much easier and faster than those of the informal sector. However, informal institutions are flexible and permanently adapt to the changing environment;

▪ *mechanisms of enforcement of rules*. Formal rules involve the use of centralized mechanisms (arbitration court, civil court, law enforcement), and informal rules involve decentralized mechanisms (arbitration court, "power entrepreneurs").

From the main differences between the two types of rules, we can deduce their advantages and disadvantages. The advantages of informal rules include: first, the possibility of adapting to changing external conditions, and second, the possibility of applying different sanctions in each case. Disadvantages are the ambiguity of interpretation of rules, reduction of efficiency of sanctions, the emergence of discriminatory rules [27].

Overall, the alternative institutional environment makes it possible to hide a considerable part of small business entities' income. The main condition for legalization and effective use of the "hidden" part of the capital of economic subjects is creating a favourable institutional environment in the official economy. The mechanism of the creation of such an environment requires a constructive approach. Simply abolishing inefficient institutions, reducing administrative barriers and government inspections, and softening penalties for violating the rules do not produce an immediate positive effect. Entrepreneurs are long dependent on previous development trajectory because informal institutions (norms of behaviour, traditions, customs) change gradually.

Besides, the low level of trust in political institutions does not encourage market actors to build competitive legal business schemes.

To exploit the potential of the illegal sector it is necessary to develop institutional tools, in the implementation of which the *private transaction costs of the entrepreneur within the formal institutional environment will be lower than the costs of behavior in an alternative environment, as well as to provide real guarantees of protection of property rights in the short and long term*.

Simultaneously, the achievement of competitive advantage at the expense of corrupt relations with state structures is not a guarantee of business success. This is due to the compensatory mechanisms of the market economy. Under the pressure of competitors, who have resources obtained through corruption, businesses change markets and activity areas. An entrepreneur can choose a strategy of bribing the authorities and building his business success on this strategy, but not success.

So, it is difficult to overestimate the role and value of the institutional environment in small business subjects. Due to its components (a set of universally recognized norms and rules), the institutional environment determines the type of economic order in the country, which, in turn, is an effective tool of economic policy implementation. For this purpose, public administration bodies use three types of levers: administrative, economic and institutional.

The set of administrative levers covers actions related to the provision of the legal infrastructure. The task of the measures taken is to create the most reasonable framework conditions for the private sector: institutions. Their function is forming favourable conditions of business life, protecting the competitive environment, preserving property rights, and free economic decision-making opportunities. Studies have shown that the lack of a legal order generates the problem of economic power. Economic power is expressed in public authorities' ability to develop and implement economic institutions that influence the behaviour of small businesses.

Thus, the role of the institutional environment in small business subjects' activity follows from the function of institutions as such. And if the neoclassical theory showed two types of restrictions: budgetary and natural, the institutional environment defines one more type - *restrictions of choice*, as their components regulate access to resources and options of their use. This allows to minimize the number of conflicts and to achieve more effective coordination.

The presence of certain rules structures interactions between business entities; that is, it establishes the boundaries of possible ways of action and lines of behaviour and thus *coordinates the behaviour of small business entities* that find themselves in the area of application of a rule.

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The limitation of access to resources and possible variants of their use influences the distribution of resources by small entrepreneurship subjects. Consequently, the institutional environment plays a determining role in *the distribution of resources between the market subjects*. In particular, the rules of licensing, permissions for some kind of activity, coordination of project documentation, access to preferential credit, leasing, allocation of subsidies, state order have a distributive effect. Strict or unreasonably excessive requirements narrow the rights of some small business subjects and expand the rights of others.

The institutional environment also has a *vital* role and influences *the degree of rational behaviour*. For example, a high degree of specification and protection of property rights favours an increase in the number of individuals willing to change their social status from wage labourer to entrepreneur [28]. It encourages existing small business entities to use resources efficiently and increase investment to maximize income. And this indicates a rational choice of individuals who see that their benefits will be much higher than the costs. In the opposite situation, the standard individual would prefer to remain a hired worker and receive a fixed wage rather than risk a guaranteed income source. At the same time, the incumbent small entrepreneur would limit himself to the amount of work he currently has at his disposal.

There is a close relationship between the distributional and incentive functions of the institutional environment. Institutions that provide

incentives for productive activity tend to lead to innovations in technology, organization, and new markets. It generates changes in relative prices and such organisations' opening that will provide certain groups of agents with distributive advantages in the new system of rules. The latter can inhibit the productive activity or encourage it.

The nature of the enforcement's mechanism (enforcement) of the rules of the institutional environment affects *the degree of adherence to personal interests*. Thus, if the efficiency of enforcement of institutions is low, then there is a high probability of opportunistic behaviour of co-founders, managers, employees, counterparties. Opportunism implies behaviour aimed at the pursuit of self-interest and unlimited by considerations of morality associated with the use of deception, cunning and deceit. The rigid system of enforcement of institutions can also lead to the other extreme - excluding self-interest and the spread of obedience.

The final effect of the totality of role functions of the institutional environment is its influence on forming preferences of small business entities. The condition for its stability is the satisfaction of all individuals and organizations (subjects of the political market) with the existing distribution of power and control over the economy's resources. And even if someone is dissatisfied with the existing restrictions, with the given relative costs and benefits of changing the rules of the game by the subjects of trade transactions, it is not profitable for them to change them.

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