

INSTITUTIONAL ENVIRONMENT OF STATE REGULATION OF BUSINESS IN THE CONDITIONS OF THE CLOSED CYCLE TRANSFORMATION OF THE NATIONAL ECONOMY

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Abstract

The article examines the problems of forming the institutional environment of state regulation of business in the conditions of the closed cycle transformation of the national economy and suggests ways to solve them. Institutional environment of state regulation of business in Ukraine in the context of the closed cycle economy was analyzed and the experience of foreign countries in implementing the principles of the circular economy was studied. The foreign experience in the field of circular economy development is analyzed, which proves the dependence of effectiveness on the quality component of the institutional environment. It is proposed to form a mechanism for state regulation of business in the conditions of the national economy transformation in the direction of innovative development and activation of the implementation of “closed cycle” projects. The main components of the mentioned mechanism are defined and the prospects for its implementation are outlined.

Keywords: state regulation, institutional environment, national economy, circular economy, closed cycle economy, mechanism, entrepreneurship, business.

JEL Codes: H83, L26.

Introduction

The term “circular economy” or “closed cycle economy” is quite new in science, since it first appeared at the end of the last century as an alternative to classical economic processes, based on such concepts as reducing and limiting the use of resources, reusing resources and recycling. This is the basis for the formation of a new type of business model, which is focused on the limited use of raw materials, the possibility of their new application, that is, the focus on

multiple processing of resources and the implementation of a closed production cycle. The focus on the implementation of circular economy principles by business entities ensures the solution of environmental problems and problems of the primary need for raw materials at the expense of external sources.

The development of the circular economy in Ukraine is at the initial stage, accordingly, the institutional component of the transformation

processes is imperfect and requires the development of the appropriate normative-legal and scientific-methodological base, organizational and financial mechanisms, the development of a complex toolkit and a management system for the implementation of relevant processes in the functioning of business structures and production sphere of the national economy.

The purpose of the article is to improve the existing theoretical provisions of the formation of the institutional environment of state business support in the conditions of the closed cycle transformation of the national economy.

Literature review

A sufficient number of domestic and foreign scientists pay attention to the study of the concept of “circular economy”, despite the relative novelty of this issue. Among foreign scientists, consideration of the circular economy in relation to the economy of sustainable development prevails.

Many articles by leading economists and business practitioners are devoted to the problems of state regulation of business. Within the framework of the study (Kryshtanovych M. et al., 2023), the peculiarities of optimization of local aspects of state regulation regarding the provision of business security in the context of sustainable development of the region were analyzed. The authors proposed a model for optimizing local aspects of state regulation of business security. The authors of article (Petrenko O. et al., 2022) researched the international experience of state regulation of business in social networks and determined the approach to the model of its implementation. as a result of the research, the trends of strengthening the influence of the state on the regulation of entrepreneurial activity in social networks were revealed. The purpose of the article (Bitė Virginijus et al., 2022) is to investigate business forms that are properly designed in accordance with the law, and are also flexible and convenient for conducting economic activities. Within the scope of scientific works (Ivanova N. et al., 2022; Zhavoronok A. et al., 2022; Abramova A. et al., 2021), the strategy of small business adaptation to modern challenges and operating

conditions was analyzed, as well as the peculiarities of the current regulatory policy were investigated.

Business development in the conditions of circular economy is an extremely relevant issue today. Scholars (Chapardar Hadi, 2024) have proposed a management model that can stimulate proactivity and innovation in business, which are crucial for the transition to a circular economy. Research (Meyer D. et al., 2024) is of practical importance, within which attention is focused on the circular business model and the inter-industry ecosystem. The study (Mocanu A.A. at al., 2024) is relevant, where the authors are convinced that the implementation of sustainable development and circular economy principles is an extremely important approach to the time and space to which we are all heading in the future. According to the authors (Jayakodi S. et al., 2024), in contrast to the model of the linear economy, the model of the closed cycle economy has a significant potential for the development of entrepreneurial activity, creating a sustainable business environment. The purpose of the article (Pacheco D.A.J. et al., 2024) was to study the problems of implementing circular economy strategies as one of the important strategies for the successful development of modern business. Research (Adelekan Adeyemi et al., 2024) is devoted to the development of cyclical business models and involves a combination of system-level and company-level approaches with an emphasis on collaboration.

Despite the diversity of approaches to considering the problems of transformational processes of the national economy, the issues of forming an institutional environment for state regulation of entrepreneurial activity and business development based on the implementation of circular economy principles are insufficiently studied.

Methodical approach

The theoretical and methodological basis of the study was the provisions of modern theories of economic development, strategic management, entrepreneurship development, scientific works of domestic and foreign

scientists, which made it possible to investigate the problems of forming the institutional environment of state regulation of business in the conditions of the closed cycle transformation of the national economy and to propose ways to solve them. The article uses such research methods as: generalization, systematization, dialectical cognition, abstraction, synthesis, analysis, grouping, cluster and factor analysis, formalization, abstract-logical, graphic and tabular.

Results

The concept of the circular economy is closely related to the global goals of sustainable development, as the implementation of circular

production technologies allows for the disposal of waste and reducing the negative impact on the environment. The importance and relevance of the circular economy and its influence on innovation processes have been reflected in the development of relevant mechanisms of state regulation and the establishment of an institutional environment in such countries as the USA, China, South Korea, Australia, and most of the EU countries. For example, in March 2020, the European Commission adopted a special plan - the Circular Economy Action Plan, which is the basis of the Green Economy Development Strategy in the EU. Currently, the following models of circular economy development have been formed in such countries (Table 1).

Table 1. Models of circular economy development in foreign countries

<i>Country</i>	<i>Circular economy development model</i>
Germany	The formation of the circular economy is based on the activation of material flows and the availability of raw materials and materials for industrial companies
Netherlands	Implementation of recycling technologies in the production process, efficient use of waste
Great Britain	Investment support for enterprises financing circular economy projects through the creation of special investment funds
Finland	Development of the Roadmap for the transition to a circular economy, development of intellectual property rights in the field of innovation protection during the development and implementation of circular projects
China	Creation of industrial parks operating on the principles of circular economy

**Source: systematized by the authors based on (An official EU website).*

Institutionalization of state regulation of business in the conditions of the economy transformation and its transition to a closed cycle economy involves the formation of appropriate institutions and a system of interaction of enterprises - subjects of the circular economy with state authorities, consumers of products and services, and suppliers of raw materials and materials on the basis of agreements, rules, regulatory procedures and laws. The study of foreign experience in the field of circular economy development proves that effectiveness depends on the quality of the institutional environment, but domestic realities testify to its uncertainty and instability.

The formation of the circular economy and the implementation of its principles in the processes of production activity of business entities is directly dependent on the state of

innovative activity. The study of the ranking of the Global Innovation Index in 2022 shows that Ukraine lost its position (57th place to 49th in 2021), but in terms of innovative results it has better results than in terms of innovative resources (infrastructure, institutional component, complexity of doing business, human capital, research), which is associated with the deterioration of positions on indicators related to the introduction of innovative technologies (Fig. 1). Thus, according to the block “Complexity of the market” in 2022, Ukraine occupies 102nd place, that is, it lost 14 positions due to indicators of financial support (“Domestic credit of the private sector as a percentage of GDP”, “Market capitalization as a percentage of GDP”) and institutional support and stability of the political environment (“Institutions”, “Business policy” indicators).

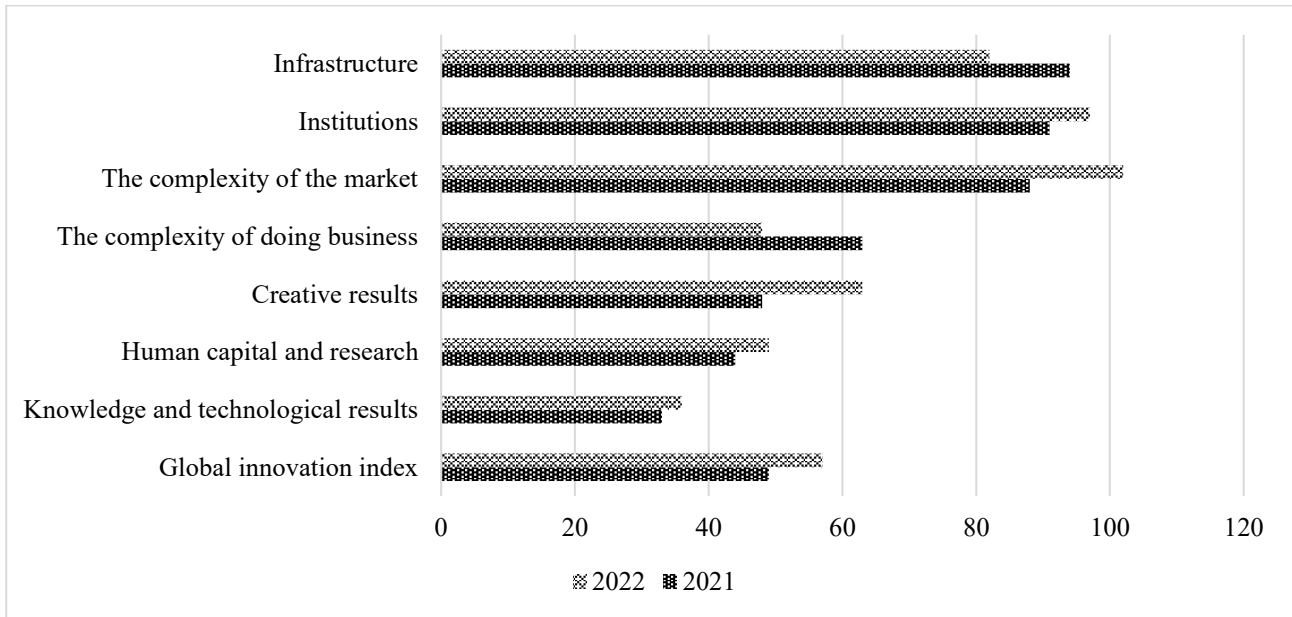


Figure 1. Ukraine's ratings by blocks of indicators according to the Global Innovation Index
 *Source: based on (Pisarenko T.V. et al., 2023).

Solving the problems of the transformation of the national economy in the context of the implementation of closed cycle technological processes requires the improvement of the existing institutional environment.

The functioning of domestic business takes place in conditions of increased institutional risk and instability, insufficient development of regulatory and legal mechanisms, and imperfect methods of state support and market regulation. This determines high requirements for the quality of the institutional environment and tools for developing the potential of enterprises implementing the concept of circular economy. The institutionalization of management processes should ensure the effectiveness of the process of effective use of raw materials and ensure the cyclicity of the process of industrial enterprises. On the other hand, the institutional component should contribute to the development and transformation of business in accordance with existing and expected changes in the external environment, which becomes possible with appropriate support and regulatory measures at all levels of state administration.

Entrepreneurship in the circular economy system is an economic institution that functions on the basis of certain stereotypes that correspond to the concept of market behavior in

conditions of sustainable development and circularity, as well as by observing social, legal, moral and ethical norms and rules. The institutional environment is formed by the intersection of interests and the interaction of the state in the form of state authorities, business entities, and households. The contradictions that arise between them testify to the immaturity of the processes of development of the institutional environment, since its state does not meet the needs of the circular economy formation. Since the institutional interaction of subjects is characterized by obtaining a synergistic effect, this becomes possible provided that the institutional environment complies with the principles of the circular economy and its ability to promote the integration of the interests of the state and economic subjects in the direction of the rational use of resources in the context of both the regional and national economy.

The existing legal framework in the field of circular economy does not play the above-mentioned motivating role for the manufacturer in the direction of transition to the use of resource-saving technologies and waste processing processes, and also has certain shortcomings in the field of waste management regulation. Administrative instruments, namely fines and administrative punishments for negative environmental impact,

are quite soft compared to European instruments of state regulation of business, and their application is influenced by such an element of the institutional environment as corruption.

In addition, the underdevelopment of the infrastructure, primarily in the direction of supply chains, and the low level of investment activity in the direction of the introduction of processing technologies and rational use of resources should be attributed to the significant problems of the institutional environment for the circular economy formation. The influence of such elements of the public administration system as non-governmental organizations, scientific research institutions in the direction of introducing the principles of the circular economy into the production activities of business entities is insufficient. The problem is also the lack of transparency of the market for secondary raw materials and the lack of effective tools for state regulation of waste processing and storage processes.

Improving the regulatory framework, forming structural mechanisms and launching processes, the operation of which gives a sustainable result of such a scale that allows us to talk about the presence of a certain trend - this can create the basis for the formation of an appropriate institutional environment. Strategic state management in the sphere of the circular economy is characterized by the adoption of the following strategic documents: Resolution “On the Formation of the Coordination Council for the Implementation of the National Waste Management Strategy in Ukraine until 2030”, dated 04.25.2018, the National Waste Management Strategy in Ukraine until 2030, the Concept of State Policy Implementation in the Field of Climate Change until 2030 and its Implementation Plan, the Low-Carbon Development Strategy of Ukraine until 2050 and the Law of Ukraine “On Housing Utilities”. One of the main tasks facing the improvement of legal regulation is bringing Ukrainian legislation closer to EU standards. The adoption of these documents also ensures the transparency of circular economy processes and institutional support.

Institutional support for state regulation of business in the circular economy conditions involves the formation of an appropriate mechanism that allows to effectively use the potential of business entities in the direction of the closed cycle development processes (Figure 2).

The general scheme of building a mechanism for state business regulation follows the following scheme:

- a) subject of management – state management bodies responsible for implementing the principles of circular economy;
- b) goals - the results of the action of the mechanism, which provides for the development and implementation of relevant program documents, including of a strategic nature; development of methodological support and adoption and implementation of regulatory documents of all levels; provision of financial and credit, production, technical and consulting support.
- c) the set of resources necessary to implement the mechanism and achieve the set goals;
- d) objects of influence – business entities on which the action of the mechanism is spread.

The mechanism of state regulation will ensure the following tasks:

- effective use of material resources;
- reducing the load on the natural environment and solving a number of environmental problems;
- innovativeness of the production process;
- formation of consumer culture and dissemination of circular economy principles among the population;
- ensuring the competitiveness of producers.

The implementation of the proposed mechanism of state business regulation will further lead to an increase in the competitiveness of enterprises, the development of innovative processes, and the creation of jobs. This is an important factor in the formation of a synergistic effect as a consequence of institutional interaction. An important link in this mechanism is the implementation of circular economy measures based on state support.

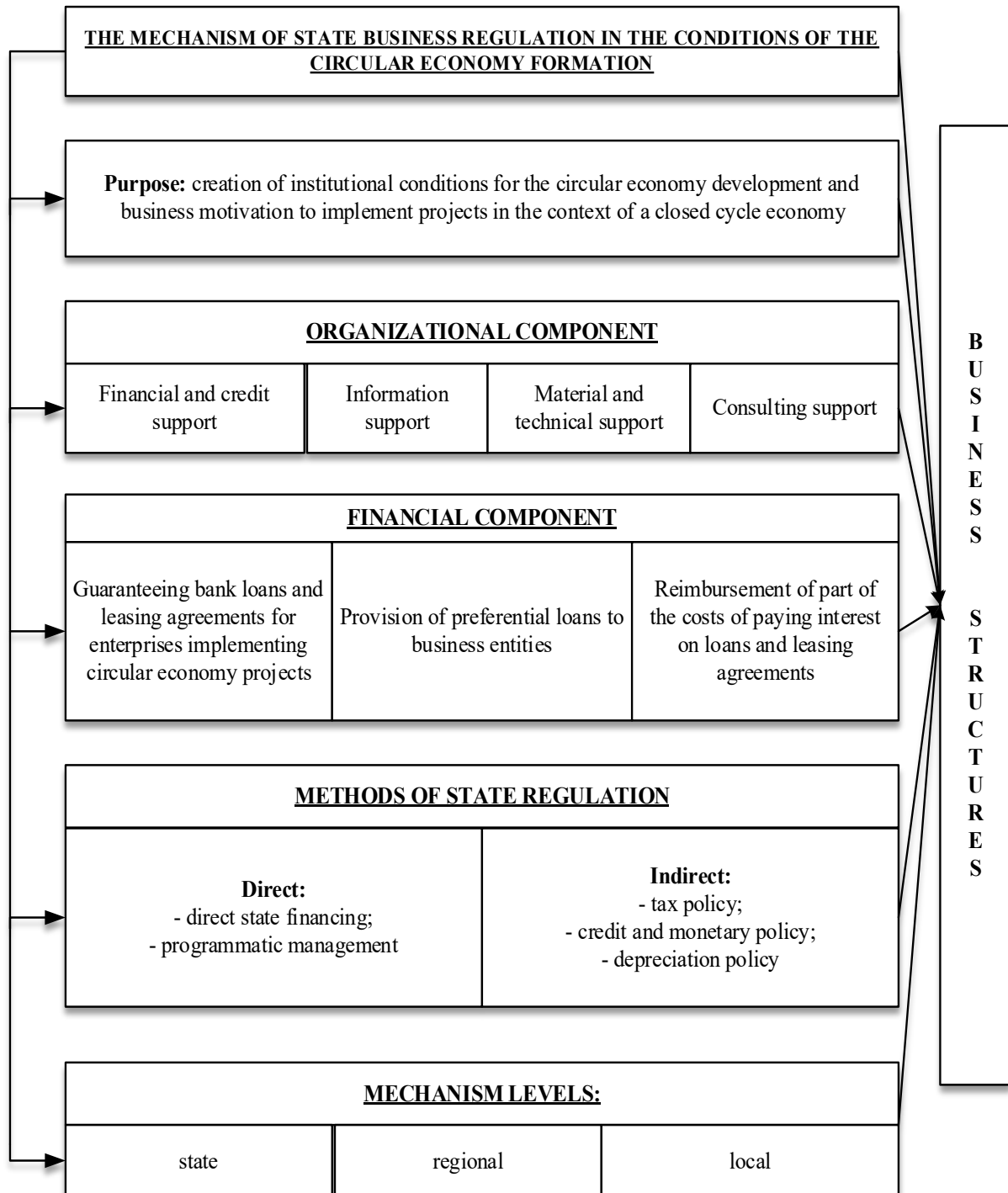


Figure 2. Components of the mechanism of state business regulation in the conditions of the circular economy formation

**Source: developed by the authors.*

Conclusions

A priority role in the structure of the institutional environment is played by the state, which, through the use of appropriate tools and mechanisms, has a regulatory influence on the functioning of enterprises that are objects of

the circular economy. Institutional support has a stimulating nature and is reflected in the formation of formal and informal rules of interaction. Therefore, the further transformation of the linear model of the economy into a circular one requires the strengthening of the relevant mechanisms, which will contribute to the further

implementation of the goals of sustainable development by solving the problems of waste management and inefficient use of natural and material resources.

The possibility of enterprises' innovative development in the circular economy conditions

solves both environmental problems and the problem of employment by creating additional jobs. In turn, the formation of an appropriate mechanism of state regulation will contribute to the effective interaction of business and state authorities.

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