

INSTITUTIONAL ASPECTS OF TRANSFORMATION PROCESSES IN THE HOSPITALITY INDUSTRY

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Abstract. The article is devoted to the study of the impact of institutional aspects on the transformation of the hospitality industry in Ukraine. The object of the study is the transformation processes of the hospitality industry, which took place under the influence of institutional factors. The paper analyses a number of scientific works by foreign and domestic scholars on understanding the concepts of "institution", "institute", "institutional environment" and its importance in the development of the hospitality industry in general. *Methodology.* The *aim of the study* is to analyse the impact of institutional factors on the transformational processes of development of the hospitality industry in Ukraine at the present stage. It is proposed to consider the institutional environment as a set of formal and informal institutions that at different levels have different impacts on the formation of the institutional system of society. The comparative characteristics of formal and informal institutions were compiled in order to clearly distinguish their differences and apply them correctly in building an effective institutional policy for the hospitality industry. It is proved that although formal institutions are relatively stable, their formation and preservation should be based on their perception by people in society as a factor in effectively solving certain problems. It was determined that Ukraine, as a country in a period of crisis (direct military action), should seriously consider institutional factors as a source of future direct investment, and weak institutional policies will raise concerns about the possibility of transferring management practices, procedures, and methods from other countries. The authors compiled a scheme of influence of factors on the formation of the institutional environment of the country as a whole and the hospitality industry, including political, legislative, economic, socio-cultural and ethical factors of influence. The publication examines the mutual influence of the institutional environment and the organisation, which is based on institutional ties, institutional pressure and institutional entrepreneurship. It has been found that an effective institutional environment stimulates the development of the hospitality industry, and a good institutional structure characterised by a strong rule of law, control of corruption, freedom of expression, a stable political environment, better regulation and good governance can open a new path for hospitality services. *Conclusion.* The results of the study are a significant contribution to the qualitative formation of the institutional environment of the hospitality industry.

Keywords: institutional environment, transformation, hospitality industry, formal and informal institutions, institutional relations, institutional pressure, institutional entrepreneurship.

JEL Classification: O17, L83, M14

1. Introduction

Today, one of the most pressing issues for the transformation of the hospitality industry in Ukraine in the context of the crisis is the strategic regulation of the institutional environment. A favourable institutional environment can

effectively ensure the development of the hospitality industry.

The current crisis conditions in the Ukrainian state determine the special role of institutions in the transformation processes of economic development and the hospitality industry in

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particular. Improvement of institutional policy determines the acceleration and quality implementation of transformation processes, and the state is interested in the effective development of the hospitality industry in crisis conditions.

The relevance of the study of the institutional environment of transformation processes in the hospitality industry is determined by two factors: first, a well-formed institutional environment not only contributes to the economic growth of the country as a whole, but also develops the infrastructure of the hospitality industry, expanding the horizons of providing new services and services; second, it is necessary to analyse the main determinants of the institutional environment in order to prevent the opposite effect, when ineffective institutions lead to economic decline, corruption and incompetent governance.

2. Research Analysis

Important studies of various aspects of the institutional environment have been carried out by such foreign and domestic scholars as: L. Davis, T. Eggertson (Davis, 1970), J. Oxley (Oxley, 1999), J. Hodgson, A. Chuhno (Chukhno, 2008), O. L. Yaremenko, T. V. Rozyt (Yaremenko, 2011), A. Holod, Y. Felenchak, O. Korkuna (Holod, 2019), M. Doliishnyi, Z. Vatamanyuk (Vatamanyuk, 2005), V. Savchenko (Savchenko, 2011) and others.

O. Williamson interprets the institutional environment as the rules of the game that define the context in which economic activity takes place (Williamson, 1985). J. Oxley believes that the institutional environment should be interpreted as a set of political, economic, social and legal arrangements that provide the basis for production and exchange (Oxley, 1999). A. I. Sukhostavets follows a similar approach, noting that the institutional environment is a set of fundamental political, social, legal and economic rules that define the framework of human behaviour and form the basis for production, exchange and distribution (Sukhostavets, 2017). Consideration of the institutional environment as an institutional matrix – a stable, historically formed system of basic institutions that regulate the economic, political and ideological subsystems of society, i.e., a set of formal rules and informal restrictions, is reflected in the works of S. G. Kirdin and D. North (Chang, 2011). However, the authors did not define a clear institutional link between the institutional environment and the organisation, which is important in shaping the institutional environment of the hospitality industry.

The *purpose of the study* is to analyse the impact of institutional factors on the transformational

processes of development of the hospitality industry in Ukraine at the present stage. This will make it possible to formulate strategic guidelines for the hospitality industry in the context of overcoming the crisis and creating a high-quality institutional environment.

To achieve the goal, the following tasks are set:

- To analyse the scientific works of world and national scholars on understanding the concepts of "institution", "institute", "institutional environment";
- to study the impact of formal and informal institutions on building an effective institutional policy for the hospitality industry;
- to substantiate the process of forming the institutional environment of the country in general and the hospitality industry in particular.

The *object of the study* is the transformation processes of the hospitality industry, which took place under the influence of institutional factors. The working hypothesis of the study involves the study of the main categorical concepts of the formation of the institutional environment and their impact on the development of the hospitality industry.

The *study uses the method* of comparison to clearly distinguish the differences between formal and informal institutions. It is substantiated that although formal institutions are relatively stable, their formation and preservation should be based on the perception of people in society as a factor in the effective solution of certain problems. The study also used the method of deduction, which first analysed the formation of the institutional environment as a whole, and then identified the impact of factors on its effective construction.

3. Research Results

The institutional environment plays an important role in the functioning of all sectors of the national economy, including the hospitality industry. Its role is especially important in times of crisis, when market economy instruments do not work properly and survival rather than growth often becomes the priority of development.

Characterising the role of the institutional environment of the hospitality industry is an extremely useful platform for making decisions about the functioning of establishments that need to adapt or survive in a crisis.

For a more thorough study of the institutional environment of the hospitality industry, it is appropriate to define the categories of "institution" and "institute", which are widely used in modern scientific works and are quite controversial and uncertain.

The founder of institutionalism, T. Veblen, characterises the concept of "institutions" as the result

of processes that took place in the past and are fully in line with the requirements of the present; they are established ways of thinking that are common to most people (Veblen, 1919). U. Hamilton argued that institutions are a verbal symbol describing a set of social customs, a prevailing and stable way of thinking, reproduced in the habits of groups or customs of people (Hamilton, 1932).

M. Peng claims (Peng, 2002) that institutions are human boundaries that shape human interaction. If institutions are not properly developed, organisations entering the market may face various violations in the form of poor management and inefficiency. Institutions and institutional factors are particularly important in developing market economies as institutional immaturity increases transaction costs and risk levels (Demirbag, 2007).

Considering the concept of "institutions" separately, W. Scott (1995) proposed to consider three types of institutions:

- Cognitive, which includes the application of social knowledge and conceptual reality in a particular society and is a manifestation of culture;
- normative, which defines generally accepted informal social/cultural prescriptions, norms, values, beliefs;
- regulatory, which informs about the current market and business rules in the country.

The broad definition of the category of institution in his study is given by O. Stryzhak, who thoroughly reflects the main differences between the concepts of "institution" and "institute". According to the author, the concept of an institution is quite broad and includes customs, ways of thinking, systems of formal and informal norms and rules, restrictive frameworks of human interaction, procedures and mechanisms for ensuring compliance with the rules, control mechanisms, stable relations that structure social life, and so forth (Stryzhak, 2016). The authors agree with O. Stryzhak's statement that the institution includes in its semantics a system of norms and rules, customs and traditions, social structures, organisations and formations.

The authors propose to consider the institutional environment as a set of formal and informal institutions that at different levels have different effects on the formation of the institutional system of society.

Formal institutions are a structure of codified and clearly defined rules and standards that shape the interaction between members of a society (North, 1990). Such institutions contribute to stability and order in society by providing guidelines and norms of behaviour. Unlike informal institutions, which change under the influence of cultural factors, formal institutions are more stable because they are

the product of human activity and are based on solutions to problems in society. When individuals in society conform to these rules and norms and take them for granted, they become routine and are reproduced in subsequent periods (Powell, 1991), and society identifies and accepts them as formal institutions. Thus, as DiMaggio (DiMaggio, 1988) argues, formal institutions reflect the motivation and collective action of members of society who seek to solve important problems that prevent the achievement of goals. Therefore, understanding formal institutions requires an understanding of the logic and justification of decisions developed by members of society, and accordingly this logic and justification is embodied in the informal institutions of society.

Informal institutions are stable systems of shared meanings and collective understanding that, although not codified in documented rules and standards, reflect a socially constructed reality that shapes cohesion and coordination among individuals in a society (Scott, 2005). Characterised by shared values and uncoded standards, culture is an important reflection of a country's informal institutions. Embedded in a nation's heritage, culture is strong, enduring and relatively stable, with gradual change occurring slowly (Brett, 1997). It is through culture that the norms and values of society's members can be realised, defining, for example, what actions are considered ethical, acceptable and desirable, and promoting a shared understanding of such expectations.

Although formal institutions are relatively stable, their formation and maintenance should be based on their perception by people in society as a factor in effectively addressing certain problems. When formal institutions lose their power, i.e., do not help to solve certain problems, individuals look for new solutions that are appropriate to the social context of the society.

Formal institutions are a multidimensional concept and consist of political, economic and legal systems. Political institutions define the nature of political processes, reduce uncertainty, facilitate the necessary management efforts to obtain certain resources and provide the basis for possible development. Accordingly, an environment with a transparent legal system and clearly defined property rights reduces the risks faced by businesses, facilitates access to finance and helps to attract investment to finance various projects.

Taking into account the main features of the comparative characteristics of formal and informal institutions, it is proposed to clearly distinguish their main differences (Table 1). First of all, formal institutions differ from informal ones in their essence, method and main task of formation, where the main difference is manifested in the purpose of creation and results of manifestation. Formal

institutions, in contrast to informal ones, are quite rigid in terms of adaptability, flexibility and, in some cases, limited access due to codification and bureaucratisation of the structure. In contrast, informal institutions are more flexible and accessible, as they evolve along with social values, traditions and customs.

A weak formal institutional framework limits opportunities for high-impact activities and increases low-impact activities. For example, K. Coyne and P. Leeson (Coyne, 2004) argue that political and legal instability leads to non-performance of contracts because it is easier to ignore laws than to obey them, thus increasing levels of corruption and the informal economy. Similarly, the absence of an effective judicial system limits the expansion of the network of customers, creditors or suppliers and makes it very difficult for organisations to operate.

Ukraine, as a country in a period of crisis (direct military action), should seriously consider institutional factors as a source of future direct investment, and a weak institutional policy will raise concerns about the possibility of transferring management practices, procedures, and methods from other countries.

Building an effective institutional environment is a prerequisite for the sustainable development of a country, even in times of crisis. The effective functioning of hospitality industry institutions is influenced by many factors, among which institutional factors are crucial.

It is proposed to describe institutional factors and their impact on the development of the country as a whole (Figure 1).

Political factors. Political factors are all the problems that can arise as a result of political actions and decisions taken by politicians and political parties. First and foremost, it is a matter of practical bureaucracy and the spread of corruption.

Without political stability, there is no certainty, and businesses need certainty to plan for the future. A stable political environment is likely to be a key factor in determining the willingness of businesses to undertake large investment projects.

Legislative factors. It is not enough to have a good legislative framework, but it is important to strictly adhere to legal principles and laws. Legislative acts that regulate the activities of organisations, the region and the state as a whole should be transparent and have a qualitative impact on the behaviour of the client (guest).

Economic factors. A well-functioning banking system provides the financial infrastructure that allows businesses to thrive and grow. This makes it an important driver of economic growth. In developing countries, such a system is often lacking.

When institutional arrangements, such as financial and banking systems, are underdeveloped or non-existent, this creates threats to direct investment as transaction costs increase and opportunities for economic growth are correspondingly limited.

For example, the Hungarian government faced two problems during the 2008–2009 financial crisis: it was not possible to obtain local financing on the open market, and the government did not have the financial institution or training to support industries in financial distress. Such a problem can negatively affect the smooth operation of enterprises. If the product is intended for export, financial institutions must not only provide working capital, but also be efficient in handling formalities and financially solvent to provide guarantees to overseas customers. If a foreign company is involved in the business, it can certainly play an important role in solving export-related problems. However, if products and services are produced for local consumers, it is important that local people have the opportunity to buy the products (Hyder, 2014).

Table 1

Comparative characteristics of formal and informal institutions

Attribute	Formal institutions	Informal institutions
<i>Essence</i>	A codified structure with clearly defined rules, regulations and standards.	Non-codified rules and standards that are often culturally based.
<i>Method of formation</i>	Through official channels, the legislature.	Emerging in society over time on the basis of shared values and norms.
<i>Task</i>	Stability, order, standardisation and predictability in society.	Social cohesion, identity and understanding of common expectations.
<i>Flexibility</i>	More rigid due to codified rules and bureaucratic structures.	More adaptable because they develop with social values.
<i>Accessibility</i>	Sometimes access is limited due to bureaucracy, costs and regulations.	More accessible because they are an integral part of everyday social life.
<i>Mechanism of change</i>	By revising laws, procedures, and regulations.	Gradual evolution, when social attitudes, values, beliefs, and mentality change.
<i>Example</i>	Norms, laws, procedures, regulations, rules, government, banking institutions, educational institutions.	Values, customs, traditions.

Source: compiled by the authors

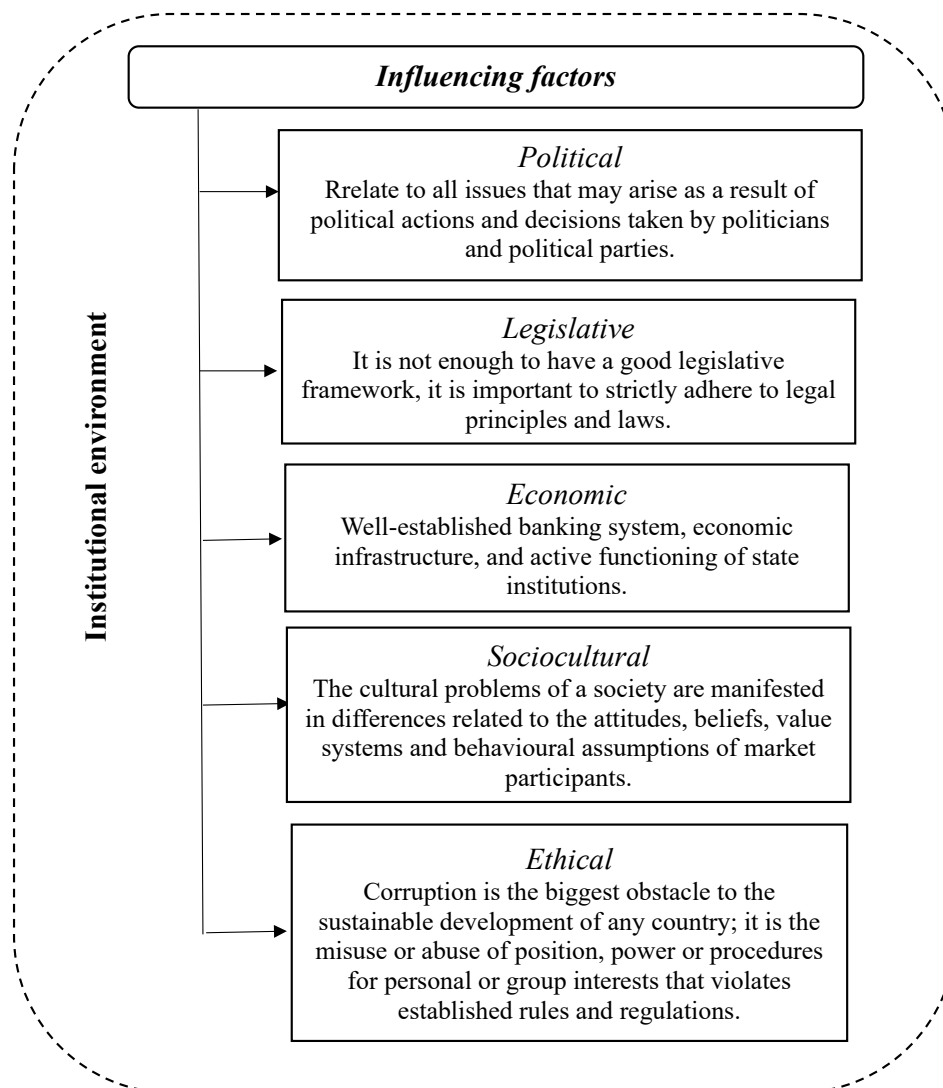


Figure 1. Factors influencing the formation of the institutional environment

Source: based on (Sukhostavets, 2017)

An important role in the functioning of this factor is played by government institutions, i.e., organisations that are organised, managed and controlled by the government to work with the public. Many governments are known to play an active role in business and negotiations with international companies. Other government agencies can facilitate or hinder foreign operations in the local country.

Economic infrastructure – economic activity requires infrastructure to support it. Roads, ports, and telecommunications networks are vital elements to support economic development. The lack of sufficient infrastructure negatively affects the ability to conduct any business. Today, special attention should be paid to telecommunications infrastructure and digitisation.

Sociocultural factors. The cultural problems of a society are manifested in differences related to

the attitudes, beliefs, value systems and behavioural assumptions of market participants.

Another important aspect of this factor is the consideration of how management functions and decision-making takes place in the country. For example, J. Hofstede and M. Minkov (Hofstede, 2011) claim that the national culture has a direct influence on the management process in the country. This means that if the national culture recognises that power is unequally distributed and that collectivism prevails over individualism, then the state will have more centralised decision-making and less dialogue. A. Hyder and D. Abraha (Hyder, 2003) found that developing countries tend to adhere to a hierarchical structure where the roles and positions between managers and employees are clearly delineated.

Growth requires a quality and well-educated workforce. This, in turn, requires a quality education

system to provide educational services to as many people as possible.

Healthcare – a healthy workforce and population are as important as a well-educated one. Protection of life and health is a constitutionally enshrined principle of human rights and freedoms.

The healthcare system of a country is an important component of the "institution-hospitality industry link". A nation with a high life expectancy and low mortality rate can have an effective healthcare system and attract tourists (guests) from abroad, strengthening the institution-hospitality industry link.

According to the authors, volunteering is also an important socio-cultural institutional factor that should be considered as a security practice. Especially in the current period of crisis processes in Ukraine, the volunteer movement plays an important role in the security situation in the country.

Ethical factors. Corruption is the biggest obstacle to the sustainable development of any country. It is the misuse or abuse of positions, power or procedures for personal or group interests that violates established rules and regulations.

At the international level, corruption is recognised as the biggest obstacle to economic development (Zeneli, 2016). In his studies, academic V. Zeneli points out that corruption hinders economic development due to distortion of the composition of public spending, negative current account balance, tax evasion, lack of competitiveness and low level of innovation. Thus, corruption has a negative impact

on the income level of the region, the country in general. Interesting studies by V. Tanzi and H. Davoodi (Tanzi, 2000) show a negative relationship between the level of corruption and the wealth of the country, claiming that the richer the country, the less corrupt it is.

Consequently, the current changes in political beliefs, regulations, tax policy, socio-cultural, economic and ethical changes require special attention to the institutional factors that influence the successful functioning of the state in a crisis.

Institutional factors influence the development of the hotel and restaurant business through various mechanisms, such as ensuring compliance with safety and quality standards, reducing administrative barriers, and reducing the tax burden. Hospitality establishments cannot operate separately from the legal environment, as institutional factors influence their success (Morhunets', 2023).

The institutional environment, according to scholars, is shaped by external forces that determine and constrain an organisation's actions and policies. Recently, however, researchers have suggested that organisations can also take steps to shape the institutional environment in which they operate. Therefore, this paper proposes to consider the mutual influence of an effective institutional environment and organisations (Figure 2).

The impact of the institutional environment on the organisation's activities. Due to its supreme status and ability to create and enforce norms, rules and practices through formal and informal means, the

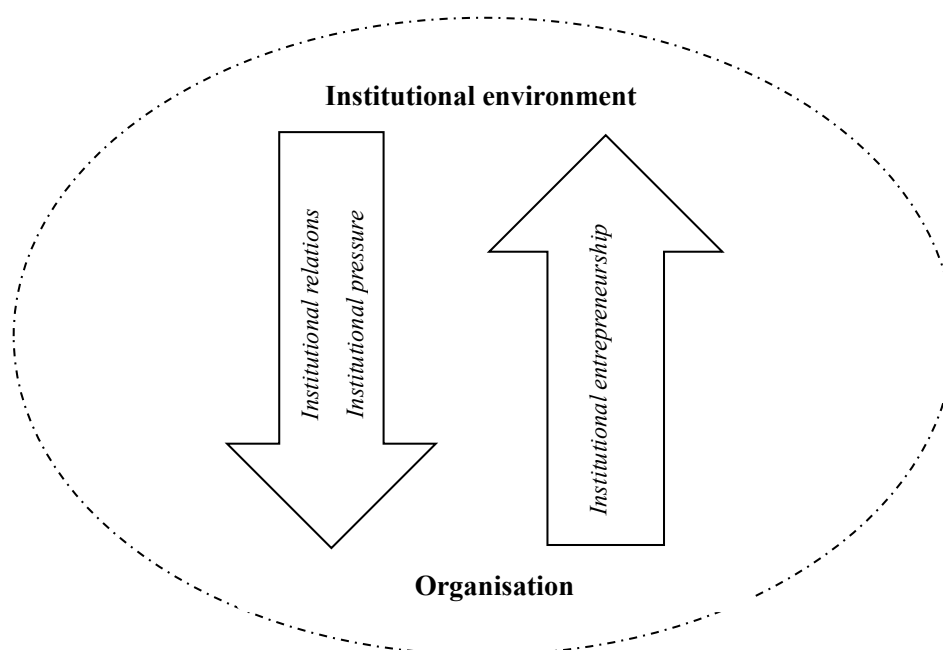


Figure 2. Interaction between the institutional environment and the organisation

Source: compiled by the authors

state is a central strategic factor in the institutional environment that organisations must consider. However, the state should not be viewed as a unitary unit, as it can be composed of multiple actors and jurisdictions among which power is unevenly distributed.

Organisations often create specialised formal structures to cope with the normative pressures of the institutional environment and to gain social legitimacy. In some cases, where such structures conflict with efficiency considerations, organisations have adopted strategies to separate these structures from the technical core of the organisation. That is, policies that were initially adopted by organisations for rational reasons can become institutionalised over time, regardless of whether they are effective for the organisation.

The creation and dissemination of institutional practices and norms can lead to organisational fields becoming more similar over time through coercive, normative and imitative institutional pressures. Coercive pressure caused by rules and norms prescribed by the state can lead to organisational isomorphism through formal and informal means. Normative pressures often arise from the professionalisation of a particular field of activity, in which they create practices and policies that serve to enhance and strengthen their status.

These institutional pressures are not mutually exclusive – for example, coercive pressures can in turn lead to normative pressures. In strategic development, it is important to consider the extent to which institutional practices are widespread and taken for granted, as the adoption of institutionalised practices, even if they do not bring technical advantages, can ultimately lead to competitive advantage through increased legitimacy and easier access to key resources.

Another important lever of the institutional environment on the activities of organisations is the development of institutional ties. Some researchers (Singh, 1986; Miner, 1990) argue that those organisations that have developed institutional links with political parties have been less likely to fail and have been protected from the possible adverse effects of organisational change. Although the development of institutional linkages can be a viable strategic move, caution must be exercised because the development of such linkages is not always the choice of the organisation, but is also a function of those providing the institutional linkages and may be influenced by forces beyond the control of the organisation.

The influence of the organisation on the formation of the institutional environment. Early studies of the institutional environment show that this category was perceived as an external force that had a

significant impact on organisations, but was not subject to the influence of organisational actors. W. Scott (1995) notes that the construction of the institutional environment occurs through a process that is unconscious and not subject to the influence or direction of agents.

DiMaggio (DiMaggio, 1988) suggested that the institutional environment is influenced by stakeholders and that their relative power has a strong influence on its defining shape. He noted that entities with sufficient resources can act as institutional entrepreneurs and try to shape the environment according to their own interests. In the same position, S. Oliver (Williamson, 1985) emphasised that organisations are not always passive and perceive institutional pressures and can respond strategically in different ways, ranging from negotiations with key stakeholders of the institution to attempts to manipulate and change basic rules, norms and practices.

Institutional entrepreneurship – organisations can influence the institutional environment and succeed under the direct influence of formal and informal institutions. J. Schumpeter noted that entrepreneurial activity is partly constrained and partly free, and there is a symbiosis between individuals and institutions that denies the independence of the former and the unrestricted penetration and complete predetermination of the latter. Accordingly, entrepreneurship can only exist under certain institutional conditions (a combination of formal and informal institutions, as well as coercive mechanisms), and at the same time entrepreneurs can change these conditions through their actions, influencing formal and informal institutions (Prutska, 2015).

In times of crisis, the national economy needs to create a new basis for strategic management for future periods. An important aspect of the stability and sustainable development of socio-economic systems in conditions of instability is the availability of reserve capabilities to resist external threats and compensate for regressive macroeconomic trends (Huzar, 2022).

4. Conclusions

An effective institutional environment fosters the development of the hospitality industry. A good institutional environment, characterised by a strong rule of law, control of corruption, freedom of expression, a stable political environment, better regulation and good governance, can open up a new path for hospitality services.

Thus, the institutional environment is a key strategic issue today, as compliance with institutional norms can confer legitimacy and provide better access to resources.

Despite the fact that Ukraine has a fairly high potential for the development of the hospitality

industry and, consequently, competitive advantages among other countries, its development is hampered by the unformed institutional environment. The issue of the influence of institutional factors on the transformation processes in the hospitality

industry requires further research in order to build an effective legislative framework for the formation of theoretical and practical foundations for the development of the hospitality industry in Ukraine.

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