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## **THE TRANSACTION COSTS CLASSIFICATION IN THE RURAL ECONOMY SECTOR**

***Summary.** This article shows the link between the transaction costs, the institutes and the institutions and on its basis creates the classification of the transaction costs according to the institutional approach, taking into account the correlation between the transaction costs composition and structure and the size of the agricultural enterprise.*

***Key words:** classification, transaction costs, institutes, institutions, playing field, institutional environment, economy, market, society, state.*

**Statement of the problem.** The transaction costs and their classification are one of the insufficiently studied objects in the economic science, in particular in its rural sector. The unresolved issues include the following ones: what the transaction costs are; why they are associated with institutes, institutions and institutional environment; what the classification of transaction costs according to the institutional approach should look like. It was the search for answers to these issues that led to this study, the results of which are summarized in this article.

**Analysis of research papers** on this subject shows that the transaction costs are first mentioned in the context of the institutionalism concept introduced

into the scientific discourse by W. Hamilton, who defined it as a common way of thinking or action, reflected in the habits of groups or the whole nation [1, p. 31]. The institutional theory in the economic science was creatively developed by R. Coase [2], D. North [3], J. Hodgson [4]. Undoubtedly, this approach was also developed regarding the economic science on the whole and the rural sector in particular. This is evidenced by the studies of such authors as O. Shpykuliak and L. Kurylo [5], V. Zinovchuk [6], O. Vlasenko [7], L. Demydenko[8], S. Tymofiiv [9], as well as the studies of M. Dubinin [10], V. Zhuk [11], P. Haidutskyi[12], O. Borovych [14], A. Hrechko[15], O. Palchuk [16], V. Yatsyna [17], R. Tiekmienzhy, O. Sokil [18] etc. concerning the transaction costs classification.

**The aim of the article** is to investigate the essence of the transaction costs and their association with the institutes and institutions united in the so-called institutional environment; to offer a classification of the transaction costs using an institutional approach, having concurrently determined the correlation between the transaction costs composition and structure and the size of the agricultural enterprise.

**Narration of the main material.** The link between the transaction costs and the institutionalism categories is explained by the fact that it is in this theory that they are first mentioned as the result of the interaction between the market agents aimed at implementing the agreements and accompanied by mutual arrangements and organizational costs. These are the costs associated with the evaluation of goods and services and the terms of exchange, the contracts and agreements efficiency, the participants' ideological beliefs about the environment and the compliance with the playing field. After all, the latter is an important part of the institutional theory, and according to D. North, it is "... the created by people restrictions that direct human interaction in a certain way ..." and contribute to a certain relationship between individuals [3].

The total of the institutes and institutions form an institutional environment, the development level of which largely affects the economy efficiency, since the

favorable or unfavorable conditions for economic activity are created within this environment. The favorable conditions will appear if the institutions accept the transparent and accountable playing field. The unfavorable conditions are created when there is no transparency, which hinders the economy development through various tools: bureaucracy, inadequate property rights protection, monopolization of the economy, oligarchy and corruption. In both cases, the playing field is enforced through the institutional environment subjects, in particular lawyers and bankers, accountants and consultants, political figures and analysts etc. Their actions are aimed at regulating the institutional environment objects, one of which is the transaction costs.

They are defined as the process of ownership or powers' part transfer from one subject to another, which is accompanied by certain costs incurred by the subjects of property rights [16] and is associated with the search for consumers, suppliers, new business partners, as well as with the subsequent contractual activity between the market participants, the protection of property rights, the control over the compliance with the contracts and the coercion to their undertaking [18]. Some authors resort to attempts of generalizing these costs in certain forms [19], others consider these forms to be the classes and types [13]. For the most part, they are classified according to different features, thus deepening the essence of the object. Having examined certain classifications, we will determine their main directions and characteristics, which are reflected in Table 1.

The table 1 shows that the scientific literature defines the purposes of managing the transaction costs as their main classification criterion. The authors elaborate these purposes in different aspects: providing the necessary information for users, accounting, according to the place where the costs incur as well as to the scope of activities, including the agricultural industry.

Table 1

**A brief overview of the transaction costs classification's existing directions and criteria**

Directions of classifications		Detailization of the classification criteria	Authors, source	
1	2	3	4	
1. For management purposes	1.1. For the purpose of the information detailization for the users	1.1.1. According to the contract type	M. Dubinina, A.Skorozinska . [13], O. Borovykh [14]	
		1.1.2. According to the composition		
		1.1.3. According to the organizational form		
		1.1.4. According to the economic substance		
		1.1.5. According to the connection with the market mechanisms		
		1.1.6. According to the subjects		
	1.2. For accounting purposes	1.2.1. influenceable costs	A. Hrechko [18]	
		1.2.2. non-influenceable costs	O. Palchuk, O. Ocheretiana [16]	
		1.2.3. costs for the information search		
		1.2.4. costs for negotiating		
		1.2.5. measurement costs		
		1.2.6. specification and property rights protection costs	Yatsyna V.V. [17]	
		1.2.7. costs for counteracting opportunistic behavior		
		1.2.8. for the quantitative evaluation of their size		
	1.3. According to the scope of	1.3.1. according to the costs location	1.3.1.1. administrative costs	R. Tiekmienzhy .H.Sokil, [18]
			1.3.1.2. according to the connection with the released product	
			1.3.1.3. according to the behavior pattern	
			1.3.1.4. according to the connection with the market mechanisms	
1.3.1.5. according to the subjects				
1.3.1.6. according to the contract type				
1.3.2. considering the agricultural industry specifics		1.3.2.1. internal production costs	Shumakova O. [10]	
		1.3.2.2. external costs		
		1.3.2.3. in the form of lost income		
2. Institutional classification	2.1. transformation costs	North D. [3], V. Zhuk [11]		
	2.2. transaction costs			
	2.2.1. organizational and legal business support	V. Zhuk [11], P. Haidutskyi [12]		
	2.2.2. costs for information gathering			
	2.2.3. costs for agreement conclusion and control over their implementation			
	2.2.4. for lobbying one's own interests through professional associations and organizations			
	2.2.5. for «staff maintenance» ( personnel search and training)			
2.2.6. for social and environmental demands				

The second aspect in the classification of the transaction costs is based directly on the institutional approach, according to which these costs are divided into the transformation and transaction ones [3; 11; 12]. The former are the usual costs for processing the raw material into the released product, associated with the physical impact on the object, that is, the costs associated with the transformational function. The latter are, basically, the costs for business support that heavily depend on the institutional environment. The authors of this classification consider the transaction costs to be an object of the institutional environment, which includes the costs for the following purposes: organizational and legal business support; gathering of the vital for business information; agreement conclusion and control over their implementation; lobbying one's own interests through professional associations and organizations; establishing and maintaining contact with the influential figures; costs complying with the public trust institutions, as well as with the social and environmental demands [11; 12].

However, according to the data given in the table 1, it is the transaction costs management purposes classification rather than the institutional one that prevails in the scientific researches. That being said, the institutional approach to the transaction costs classification is not taken into account altogether. This applies to the classification of R. Tiekmienzhy and O. Sokil, who qualify all the costs of the enterprise, including the administrative and direct ones, as the transaction costs and divide them into the following categories: 1) administrative costs, including the total cost of the enterprise general management; 2) according to the connection with the released product: 2a) costs related to the released product (Product Costs) and 2b) expenses related to the time period (Period Costs); 3) according to the behavior pattern, using the sold output volume as the baseline: 3a) fixed (permanent) and 3b) variable [15]. Undoubtedly, such classification cannot be used in the transaction costs study, since it applies to all the costs of the enterprise.

An important feature of this classification is the cost attribute for the accounting purposes offered by A Hrechko, who divides the costs into the influenceable and non-influenceable (non-official and illegal payments (non-influenceable), since only those transaction costs that are confirmed by the relevant documents, that is the influenceable ones [15], are to be reflected in the accounting. These are the transaction costs indeed, although the abovementioned author considers them in the costs classification for the management purposes.

As shown in table 1, there are different classifications of the transaction costs for the rural sector, in particular for the purpose of the information detalization for the users. This classification is offered by M. Dubinina and A. Skorozinska [13], O. Borovych [14]. These authors divide the costs according to the contract type, the composition and the organizational form, the economic substance, the connection with the market mechanisms and the subjects. This classification is important because of the feature highlighted in the source [10], that is a quantitative evaluation of their size, which distinguishes the following characteristics: a) internal production costs, which are directly related to the goods promotion in the market by one's own units of the economic agent; b) external costs, which include the costs for the third-party organizations services promoting the goods in the market; c) in the form of lost income, when the agricultural enterprises lose part of their income due to the differences in the quality indicators of the goods being sold, the products sale in due time and at the distress prices, as well as the loss of the physical output in the process of the products realization [10].

O. Palchuk ta O. Ocheretiana [16] offer their own classification for the same purpose, but with the detalization for the accounting, in which they include the influenceable and non-influenceable costs into the transaction ones, although it is clear that the costs for the information search, negotiating and counteracting the opportunistic behavior can not be controlled in the accounting system, since they often remain "in the shadow," as discussed above.

It should be noted that not all the enterprises have the opportunity of incurring the transaction costs. This is especially noticeable in the rural sector of the economy, which includes, on the one hand, the agricultural monopolists, and, on the other hand, many small agricultural producers and farms. If the former can incur the transaction costs not to the detriment of themselves, the latter do not have the necessary funds. In this regard, they are not able to position themselves in the market, and therefore such enterprises remain outside the market. They distance themselves from business and often lack all the necessary information resources, therefore such enterprises become dependent on the intermediaries. However, this fact is not mentioned in any classification dividing the transaction costs according to the size of the enterprise.

In our opinion, it would be appropriate to divide the transaction costs into two groups: 1) the transaction costs of large agricultural enterprises; 2) the transaction costs of small agricultural enterprises and the farms. This being said, according to this classification, some transaction costs can incur both at large enterprises and the small ones, which also function as active players in the market. At the same time, small agricultural enterprises cannot incur many transaction costs or incur them partially.

For example, all the enterprises will soon incur the production standardization and certification, since, without the appropriate certificates, neither farms nor monopolists will be able to sell their products in the market, which is to meet the established quality standards. The costs for the market research and the market environment assessment are not available to all the enterprises. If it is a case of a farm, then workers are mostly engaged in the output of products, which they sell either on their own or through the intermediaries. The latter are engaged in promoting the products in the market, incurring their own transaction costs. Consequently, some enterprises can have the transaction costs, and others either cannot afford them or incur them only partially. It depends on the transaction costs structure (Table 2).

*Table 2*

**The transaction costs incurrence according to the composition and the structure and depending on the size of the agricultural enterprise**

<b>The transaction costs: (+) can incur; (-) cannot incur; (*) can partially incur such costs</b>		
<b>The features of the costs classification according to the composition</b>	<b>large and medium enterprises (+, -,*)</b>	<b>small enterprises and farms (+, -, *)</b>
1. Costs for the concerned parties search:		
1.1. costs for the market research and the market environment evaluation	+	-
1.2. costs and losses due to the non-transparent competitive environment	+	+
1.3. information costs associated with the search for business partners	+	-, *
2. Political and legal interaction costs		
2.1. costs for the production standardization and certification	+	+
2.2. costs for the negotiating and contracting	+	*
2.3. consulting and audit costs	+	-
3. Information costs and losses		
3.1. costs associated with defining the transaction costs information sources	+	-
3.2. costs and losses due to the low-quality and untimely information	+	*
3.3. costs due to the lack of the developed information space	+	+
4. Natural and ecological costs and losses		
4.1. costs and losses due to the low demand for the ecologically-unfriendly products	+	+
4.2. costs due to the control measurement and obtaining the sanitary, epidemiological and ecological authorities conclusion	+	+
4.3. costs due to the fines and penalties for the failure to comply with the demands of the sanitary, epidemiological and ecological authorities	+	+

\*While defining the composition and the structure of the transaction costs we used the research sources data, in particular the work by O. Vlasenko [7]

It should be noted that if the costs for the market research and the market environment evaluation can only be incurred by large enterprises, then the costs and losses due to the non-transparent competitive environment will be tangible for both large and small enterprises, especially for the latter as they have no funds to properly promote their production, unlike the large enterprises. Apart from that, the farm can hardly afford the information costs associated with the search for business partners, as it possesses neither the funds nor the qualified specialists



for this. Such services are most often used by the intermediaries who receive a significant part of their profits after the output realization.

Consequently, we will apply the beforementioned feature to create the costs classification according to the institutional approach, basing it on the institutional classification of the transaction costs, given in table 1, in which D. North [3], V. Zhuk [11] and P. Haidutskyi [12] divide these costs into two groups: transformation and transaction, which occupy one classification position.

However, the in-depth detalization of the classification features ensures that the transaction costs are in the joint position with all the enterprise costs, without dividing them into the transformation and transaction ones. In order to classify the transaction costs according to the institutional approach we will restructure the costs given in table 1 according to the institutional feature. Therefore, the transaction costs classification will have a totally different content (Table 3).

In the beforementioned classification these costs become an integral part of all the enterprise costs, united by one purpose – the management demands.

*Table 3*

**The costs classification according to the institutional approach**

Directions of classifications		Detalization of the classification criteria
1	2	3
1. For management purposes	1.1. transformation costs	1.1.1. administrative costs
		1.1.2. according to the behavior pattern
		1.1.3. according to the organizational form
		1.1.4. according to the economic substance
		1.1.5. according to the connection with the market mechanisms
		1.1.6. according to the connection with the released product
		1.1.7. for the quantitative evaluation of their size
		1.1.8. internal production costs
		1.1.9. external costs
		1.1.10. according to the subjects
	1.2. transaction costs	1.2.1. influenceable costs
		1.2.2. non-influenceable costs
		1.2.3. costs for the information search
		1.2.4. costs for negotiating
		1.2.5. measurement costs
		1.2.6. specification and property rights protection costs
		1.2.7. costs for counteracting opportunistic behavior
		1.2.8. in the form of lost income
		1.2.9. according to the enterprise size
		1.2.10. for lobbying one's own interests through professional associations and organizations
		1.2.11. for «staff maintenance» (personnel search and training)
		1.2.12. for social and environmental demands

\* The transaction costs classification according to the institutional approach was created taking into consideration the classifications of the other authors [3; 11; 12].

This occurs due to the fact that all the costs comply with the sole purpose of managing them, which is the costs optimization (both the transformation and the transaction ones). Within the limits of this classification feature, the costs detalization according to the institutional approach is carried out according to the sources [3; 11; 12] in two groups: 1.1 transformation, 1.2 transaction. Each group distinguishes the costs according to the designated features. For example, the administrative costs (1.1.1) are costs associated with the enterprise management and its costs, they cannot be part of the transaction costs, and therefore they are attributed to the transformation costs. The same applies to the other costs: the costs according to the behavior pattern, the organizational form, the internal

production - all of them are the enterprise costs, which are directly related to the production output.

On the other hand, the influenceable or the non-influenceable costs are the transaction costs, since not all the costs associated with, for example, the information search, the costs for negotiating and counteracting the opportunistic behavior, the specification and the property rights protection costs etc. can always be controlled, although they are mandatory for the enterprise to occupy a certain place in the market. It should be noted that we added a certain position 1.2.9. - the costs according to the enterprise size- to the classification. The fact that such costs division and their introduction into the classification is appropriate is proved above.

**Conclusion.** Researching the concept of the transaction costs and their classifications made it possible to determine the transaction costs composition and structure dependence on the agricultural enterprise size and to create the transaction costs classification according to the institutional approach, in which the sole purpose of providing the management demands is the common feature of all the costs, and the transaction and the transformation costs are a structural part of this feature.

The problem of the transaction costs classification in their association with the institutes and the institutions in the institutional environment of the economy rural sector is quite complicated, since it contains many argumentative issues that require further in-depth research.

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