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**FACTOR ANALYSIS OF PROCESSES OF CORPORATE CULTURE  
FORMATION AT INDUSTRIAL ENTERPRISES OF UKRAINE<sup>1</sup>**

**Illiashenko Sergii**

*Doctor of Economics, Professor, Head of the Department of Marketing and Management of Innovative Activity, Sumy State University (Ukraine);  
Habilitation Doctor, Professor, University of Economics and Humanities,  
Bielsko-Biala (Poland)*

**Ovcharenko Maxim**

*PhD, director of "Optimum solution" LTD, Sumy, Ukraine*

**Ovcharenko Svetlana**

*PhD, senior analyst at "Optimum solution" LTD, Sumy, Ukraine*

*Authors have analyzed and synthesized the features of formation and development of the corporate culture at industrial enterprises of Ukraine and on this basis developed recommendations for application in the management of strategic development. During the research authors used the following general scientific methods: at research of patterns of interaction national culture, corporate culture and the culture of the individual authors used logical generalization method; for determining factors influencing corporate culture formation with the level of occurrence authors used factor analysis; for trend analysis of the corporate culture development at appropriate levels authors used comparative method. Results of the analysis showed that macro- and microfactors are external and mezofaktors (adaptability of business and corporate governance, corporate ethics, corporate social responsibility and personnel policies, corporate finance) are internal for an enterprise. Authors have identified areas for each of the factors, itemized obstacles to the establishment and development of corporate culture at Ukrainian industrial enterprises and proposed recommendations for these processes management.*

**Keywords:** *corporate culture, factor analysis, the level of corporate culture formation, influence, intangible asset.*

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**Introduction.** Ukraine's economy, as well as the world's economy is instable and highly dynamic. Under these conditions the industrial enterprises' successful functioning which greatly affects the pace and direction of other industries development, depends on the ability to adapt to changes in the environment.

The business sector of Ukraine, especially in industry, is influenced by major social subsystems: social and economic, political and legal, social and cultural. The nature of ethical norms and the principles of Ukraine's business environment was determined by the impact of these subsystems. This is a combination of totalitarian economy era behavior, borrowings from Western business culture and uncertain "rules" inherent to the transitional economy countries. The rejection of corporate culture among other problems, resulted to low economic efficiency of many domestic industries. Hence, the corporate culture was formed spontaneously. Under these circumstances there rises a problem of purposeful developing approaches to formation of enterprises' corporate culture that would combine both "Western" achievements and specific features of the socio-economic development of Ukraine.

**Analysis of recent researches and publications.** The investigation of the role and place of the corporate culture as a competitive factor was initiated by foreign scholars, including: Cameron & Quinn (1999), Deal & Kennedy (1982), Harris. & Morgan (1991), Hofstede (1980), Jaffe (1996), Kotter & Heskett (1992), O'Reilly et al. (1991), Shein (1990), Fey & Denison (1998), Kapitonov et al. (2005), Spivak, V.A. (2000) and others. Now fundamental principles for diagnostics of its state formation and development are developed. However, despite the high level and diversity of foreign studies of corporate culture, their results are sometimes inapplicable to the domestic industry, as they lack the specific features of Ukraine's economy.

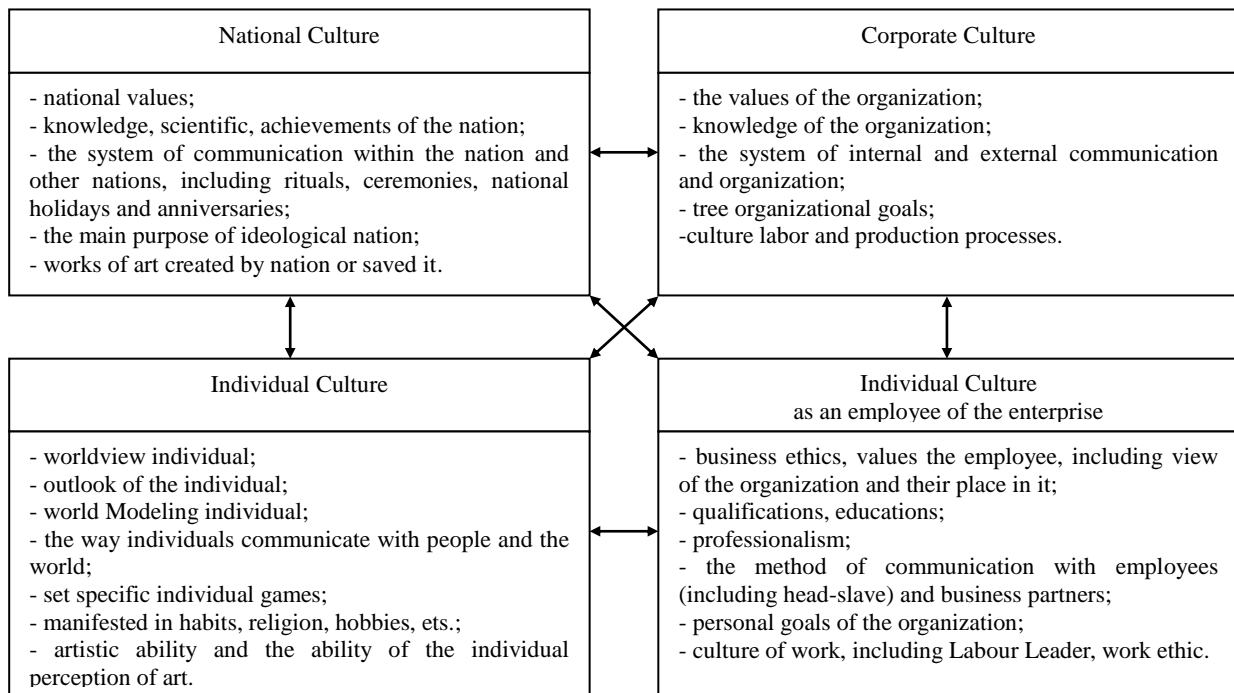
Domestic scientists faced the problems of corporate culture lately, complementing the scientific heritage of foreign researchers. In particular, the nature, conditions and factors of corporate culture were investigated by Arapov A.V. (2013), Zerkal' (2011), Kuz'min et al. (2007), Bashuk & Zholuzhyeva (2011), Khimich (2009), Guiso L.; Sapienza P. & Zingales L. (2015). The corporate culture development was investigated by Zakharchyn (2011), Paponova, N. Ye (2014), Pasyeka & Humenyuk (2011), Pitel' (2012), Serebryakova G. (2013). The features of the corporate culture development in the context of general domestic economy problems, innovative trends, informational support and intellectualization of society was investigated by domestic scientists: Kostina (2008), Kam'yans'ka (2010), Ukrayins'ka (2012), Shypulina, Y.S. (2010) and others.

**Previously unsettled problem constituent.** Domestic investigations prove that some theoretical and methodological aspects of corporate culture require further research, especially regarding the necessity of enterprises' internal management to adapt to increasingly changing external environment. Also the impact of specific features of Ukrainian economy development to the corporate culture of industrial enterprises remains unexplored. This is vital for domestic application of the foreign experience otherwise it only discredits the idea of the corporate culture formation and development as a factor of Ukraine's industry competitiveness.

Thus, the **purpose of the article** is the analysis and synthesis of Ukrainian enterprises' corporate culture formation and development followed with developing recommendations for proper application of results in the strategic development management.

**Results and discussions.** Corporate culture of an enterprise is influenced by the national culture, the culture of individuals, as well as the values and goals of the enterprise itself. The

general scheme of the interaction of national culture, corporate culture and the culture of the individual is shown in Fig. 1.



**Fig. 1. The general scheme of the interaction of national culture, corporate culture and the culture of the individual** (developed on the basis of Cameron & Quinn, 1999; Deal & Kennedy, 1982)

Corporate culture refers to the complex material and spiritual phenomena. Its investigation faces a number of challenges, including the assessment of factors influencing its formation and development. In order to offer efficient tendency of corporate culture formation and an effective mechanism of its operation, it is necessary to systematize the factors influencing it followed by further studying the trends of such impact. The factors concerning priority values and depth of influence should also identified.

In terms of methodology, the feasibility of investigation of factors influencing the corporate culture is conditioned by, firstly, the combination of factors makes the essence of corporate culture more understandable, secondly, factors clearly prove favorable and unfavorable trends related to the future states of

culture, with an important overview to modeling and formation development strategies, thirdly, being aware of the force and direction of factors' influence one can effectively use corporate culture as an internal tool of company's development and adaptation to external changes (Zakharchyn, 2011).

To precisely determine factors influencing corporate culture of Ukrainian enterprises, authors proposed to classify them in terms of the analysis level and define:

- macrofactors operating across society and characterize it on the whole;
- mesofactors influencing at the enterprise level;
- microfactors that operate at the individual level (in particular they relate to family, education and the socialization process).

The adjustment of global trends to

peculiarities of national culture, religion and originality of specific country takes place at the macro level. This definitely affects the enterprises' corporate culture (mesolevel): at this level company's industry, size, its products' stage of life cycle should be taken into account. The microlevel forms enterprise's human capital value, which determines the total value of the human capital of the country. This scheme fully proves that the corporate culture is a concept associated not only with an individual enterprise, but also national culture in general.

It should be mentioned that macrofactors are the same to all companies, but mesofactors and microfactors are individually formed at the enterprise level and determine the diversity of corporate cultures. Consequently features of enterprises' corporate culture are determined not only by the complex influence of these factor groups, but the intensity of the components that determine its uniqueness.

Based on the proposed classification of factors of enterprises' corporate culture development, macro- and microfactors are external and influence corporate culture as objective stimulants to action or as inhibitory forces. Mesofactors are internal and have a certain degree of subjective influence (Fig. 2).

In the evolution a change of impact factors and reconsideration of culture take place: neglect, criticism or perception, that means factors may stimulate or inhibit the development of culture or its individual components.

The classification allows to identify problem areas, to itemize obstacles to the formation of corporate culture, and elaborate direct measures to control its development. Analysis of the political, legal, socio-economic, cultural, technical and technological, natural and economic conditions in Ukraine allowed to detail factors influencing the formation and development of enterprise's corporate culture.

### **1. The influence of macrofactors' on corporate culture.**

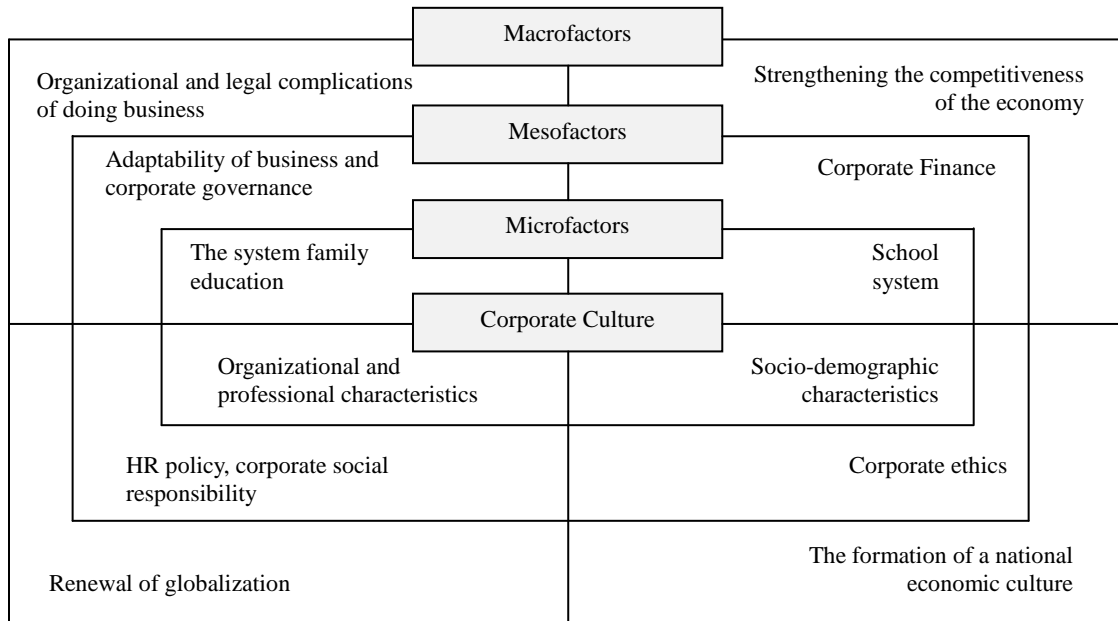
1. Complications of legal forms of industrial

enterprises and activation of the corporate sector in Ukraine as one of the most common forms where corporate culture is evident. Since the process of integration and global competition is a distinctive feature of modern economy, the role of the corporate sector is becoming more significant. On the one hand, the desire to live in a new post-industrial society, where knowledge, equipment and technology combined with an improvement of living standards and new principles of democracy – all these achieved by means of "adaptive" corporations that are different from the traditional hierarchical structures and market economy. On the other hand, globalized corporate sector activities are quite tough despite all positive aspects. Basic inequalities between social groups, regions and countries increase as a result of recent corporations' activity: seizing economic power in a particular area, foreign companies make it an object of systematic use for their own purposes. Therefore, one of the possible ways to ensure national economic security and competitiveness in a globalized environment is to create a similar domestic corporate economy and ensure domestic corporations' gradual transaction to world markets.

According to statistics, Ukraine has a significant corporate sector, represented by private business, state companies or mixed entities varying from simplest forms like joint stock companies to powerful integrated corporate structures. From 1997 to 2012 the number of corporate-type structures is growing. In particular, the number of corporations has increased from 332 to 862, associations - from 1902 to 3222, consortiums - from 51 to 94. In addition, the number of branches and other structural subdivisions is also increasing, in 2012 their number was over 50,000 (Data on the number, 2013). The rates of joint stock companies formation slowed down lately. What concerns corporate holding structures, according to the Antimonopoly Committee of Ukraine, in 2012, 417 associations were established and had

signs of holding system. From 2007 to 2012 in general about 3158 cases of entities concentration were considered (Data for indicators, 2013). At the beginning of 2013 the

numbers of business partnerships that have state share amounted to 669, about 30 of them were integrated corporate structures (The data, 2014).



**Fig. 2. Factors influencing enterprises' corporate culture**  
(authoring)

Despite the relatively positive dynamics of the corporate entities number several other qualitative and quantitative indexes of the corporate sector, development is still quite ambiguous.

2. Strengthening competition. At present we faced problems in creating and ensuring further growth of international competitiveness of enterprises, in particular when entering foreign markets. According to the report World Economic Forum's Global Competitiveness Report for 2011-2013 years Ukraine has risen to 9 positions, continuing to demonstrate its main competitive advantages - education and market capacity (The Global, 2014). Comparative characteristics of Ukraine ratings in the years

2010-2013 by main components of competitiveness is presented in Table 1.

On their way to successful implementation, competitive advantages face problems of unfavorable business climate and technological backwardness of domestic companies. This requires improving the tangible component of culture, personnel reorientation on active perception of innovative ideas and creativity development, because these define the essence of the core characteristics of modern culture. According to statistics, in 2013, 1472 or 14.2% of the total number of Ukrainian enterprises were engaged in innovative activity. They have sold innovative products worth 40,188.0 mln. UAH. or 6.7% of total industrial production.

**Table 1. Global Competitiveness Index Ukraine during the 2010-2013 years**

Components of the index of global competitiveness	2010-2011 (139 countries)		2011-2012 (142 countries)		2012-2013 (144 countries)	
	mark	rating	mark	rating	mark	rating
Basic requirements	3,9	102	4,2	98	4,4	79
The quality of public institutions	3,0	134	3,0	131	3,1	132
Infrastructure	3,8	68	3,9	71	4,1	65
Macroeconomic stability	3,2	132	4,21	112	4,4	90
Health care and primary education	5,7	66	5,6	74	5,8	62
efficiency amplifiers	4,0	72	4,0	74	4,1	65
Higher education and training	4,6	46	4,6	51	4,7	47
The efficiency of goods and services	3,5	129	3,6	129	3,8	117
Labor market efficiency	4,5	54	4,4	61	4,4	62
The level of financial market	3,3	119	3,4	116	3,5	114
Technical readiness	3,4	83	3,5	82	3,6	81
market size	4,5	38	4,5	38	4,6	38
Innovation and development	3,3	88	3,3	93	3,4	79
business Competitiveness	3,5	100	3,5	103	3,7	91
Innovation	3,1	63	3,1	74	3,2	71
The Global Competitiveness Index	3,9	89	4,0	82	4,1	73

Source: (Effective Management, 2013)

The innovative component affects both the structure of corporate culture and the processes of its formation. The impact on the structure of corporate culture is caused by the intellectualization of labor, which results in decomposition of company's values and admission knowledge as a dominant value. This knowledge is crucial in the formation of intellectual potential and build-up of innovative dynamics (Illiashenko at al., 2015).

3. *Features of formation of Ukrainian economic culture.* The phenomenon of domestic economic culture cannot be related to common typology and classification, because it is characterized by a combination of several different elements grouped by following principle:

- fragmentation - simultaneous display of elements of traditional Ukrainian, Soviet (values of paternalistic culture) and modern (values of the capitalist culture that borrowed together with the Western market institutions);
- a high degree of heterogeneity economic

culture - the existence of many class, national, regional, confessional subcultures;

- conflict - lack of basic congruence in society on economic values, a high degree of tension between social-class groups;

- ambivalence - simultaneous support for different economic values, due to the lack of common ideology, the destruction of national values as the result of socio-economic and political transformations.

4. *Renewal of globalization.* Globalization has greatly exacerbated international competition and domestic enterprises with low innovative ability are unlikely able to compete on the world market without significant investment. Being now in conditions of financial deficits, they will have to seek optimal schemes and mechanisms to improve its competitiveness and innovative appeal. Under these conditions, access to the international market will be possible through the creation of various alliances, integrated structures, united by merger or acquisition or other means. Thus,

the globalization reveals through strengthen of multinational companies in building international economic relations, international capital flows, technology transfer and so on. Transnational corporations bring to Ukraine both capital and new approaches to formation and management of a new culture in relations between structural divisions of the corporation - namely Interculture. However, introducing corporate governance and corporate culture managers of multinational companies face a number of obstacles due to the neglect of mental peculiarities of Ukrainian people. This problem is aggravated by the following factors:

- globalization processes that forces business to search new managerial methods related to

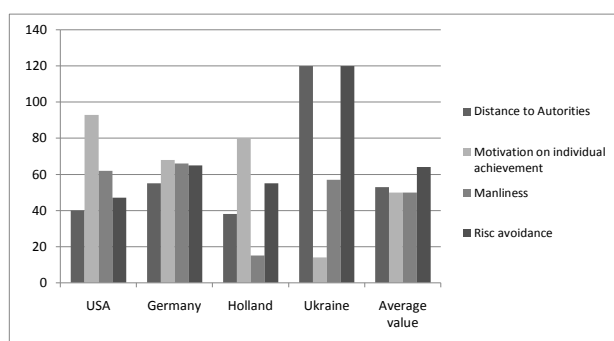
issues of national and cultural identity;

- integration of Ukraine into the world economy;

- many managers do not understand the nature and the role of corporate culture and have no effective tools for its establishing;

- foreign companies' managers neglect national and cultural traits of Ukrainian employees.

The influence of national culture and mentality on corporate culture is clearly observed by means of G. Hofstede's integrated approach (Hofstede, 1980). Using this approach authors investigated national peculiarities of Ukraine and countries with major investments in Ukrainian economy (Fig. 3).



**Fig. 3. Differences between Ukrainians and representatives of other countries according to Hofstede's approach** (developed on the basis of Illyashenko & Ovcharenko, 2012)

As follows from Fig. 3, the values of the first and last indexes of Ukraine are twice higher than average values but Ukrainians are much less motivated on individual achievements than other nations.

## 2. Factors of mesolevel and their impact on corporate culture

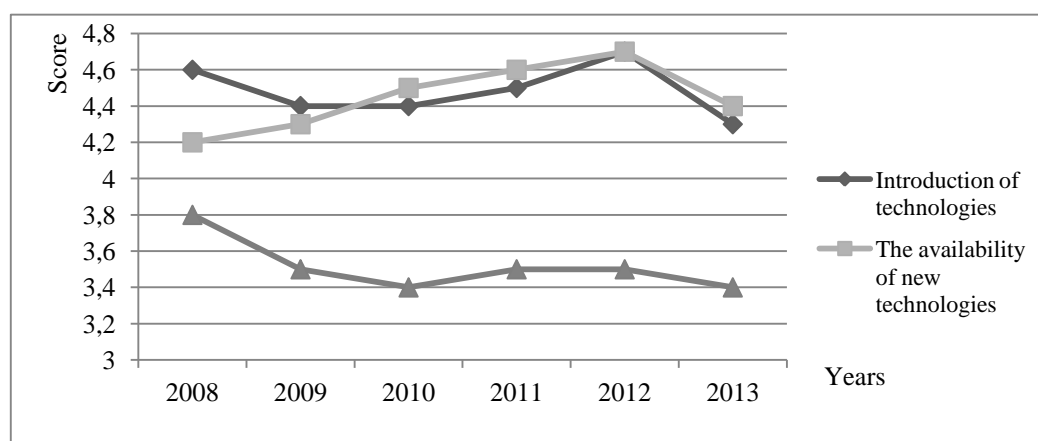
Analysis of domestic literature (Kuz'min at

al., 2007; Khimich, 2015; Pasyeka & Humenyuk O.S., 2011; Kam'yans'ka, 2010) allowed authors to summarize the meso level factors that influence the corporate culture of Ukrainian industrial enterprises. They are adaptability of business and corporate management, corporate ethics, human resources and corporate finance. Let's view the degree of

mesolevel factors influence on Ukrainian enterprises corporate culture.

Adaptability of business is a factor that is closely related to corporate culture. If a company applies modern technology, corporate culture focuses on modern demands of the environment, production of high quality

products, customer satisfaction, creating favorable working conditions, the preserving environment and so on. The readiness of enterprises to risk can be estimated by their technological availability and adaptability obtained from three indicators (Fig. 4).



**Fig. 4. The evolution of technological readiness and business development in Ukraine for 2008-2013** (developed on the basis of Effective Management, 2013)

As shown in Fig. 4, scores of important indicators of Ukrainian enterprises' technological adaptability have increased during 2010-2012. Two scores declare the country could have risen almost for 20 positions in the global ranking, but in 2013 it has not only lost all achieved before, but has also turned out to be at the worst positions for the last few years. The decay is particularly noticeable in terms of the level of productions: in 2013 scoring for this indicator was about the same as in 2009-2012. However this has dropped the country by almost ten positions in the global ranking.

Quality of management depends on the level of corporate governance and is one of the key conditions of the business ability to develop and adapt to external changes. While the level of Ukrainian business in general and corporate governance in particular is not conducive to successful adaptation to processes that take place in global and national economies.

According to the Change Readiness Index, Ukraine occupies 37<sup>th</sup> place out among 60 countries with emerging markets, and this relatively low position is the result of bad assessments of the economic sub-indexes, which determines readiness for changes in business environment (51<sup>st</sup> place).

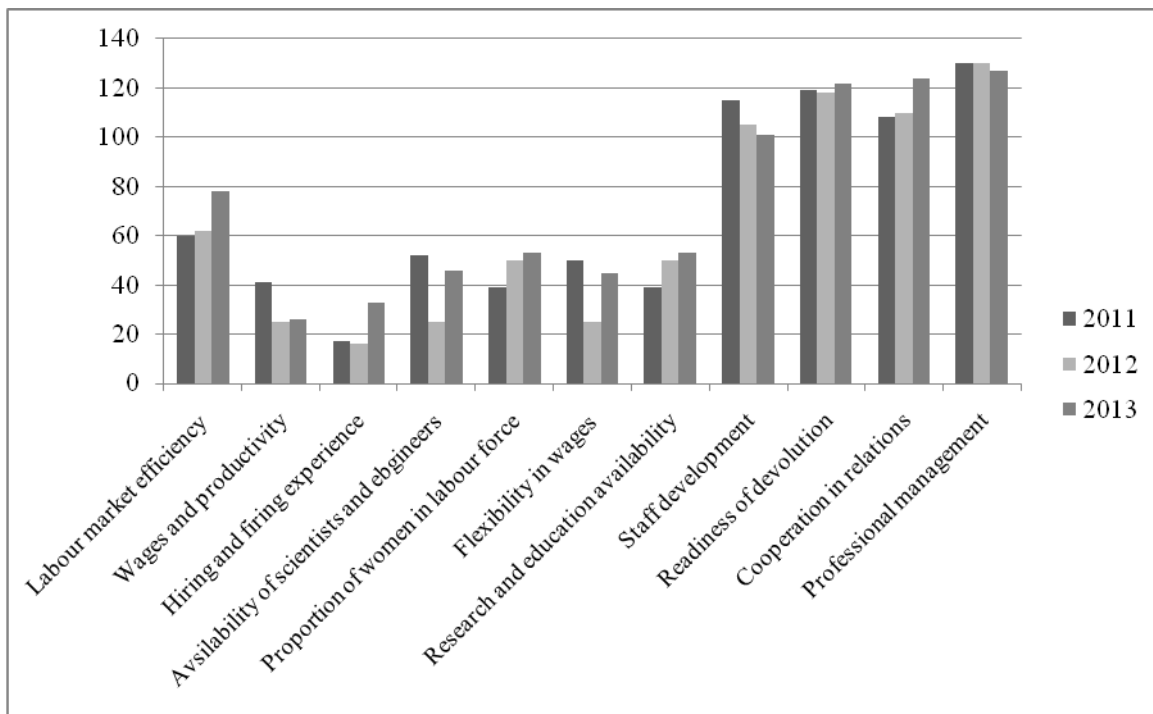
The worst scores for Ukraine were received in terms of minority shareholders protection (146<sup>th</sup> out of 148 countries). In addition, managers have set a very low score in terms of the degree of the market monopolization (132<sup>nd</sup> position). This external investors relationship is not developed, as evidenced by the low scores of Auditing Standards and Reporting (130<sup>th</sup> position) and stock market regulation (129<sup>th</sup> place in the 2013 GCI). Moreover, some indicators even worsened the position of Ukraine in dynamics: the loss of seven positions per year in the degree of market monopolization and four positions in terms of readiness of



devolution (Fig. 5).

According to the aforementioned research the corporate management in Ukraine can not be considered effective. While top managers of large domestic businesses are willing to develop corporate management principles, a number of

indicators for large business are above the average for the country. On the other hand general values of corporate management indicate the uncompetitive level of Ukrainian business.



**Fig. 5. The evolution of HR in the Ukraine during the period 2011-2013**  
 (developed on the basis of Effective Management, 2013)

An important global trend of recent years is an increase of attention to "soft" business factors, which include corporate ethics, corporate social responsibility, human resources policy and others. These factors improve relations with different groups of interested parties (stakeholders) - both external and internal - and contribute to the growth of enterprise's value through intangible assets such as reputation and ethics. The necessity to develop corporate ethics is primarily due to the risk of business reputation loss in the perception of external and internal stakeholders.

Business survey conducted within the research "CSR 2005-2010: Status and

Prospects", organized by Ukrainian National Initiatives to Enhance Reforms (UNITER), shows that, despite the interest of Ukrainian companies in running business on ethical standards, not all companies actually make effects. In particular a little more than 28% of large Ukrainian companies have approved values and codes of conduct (Corporate, 2011).

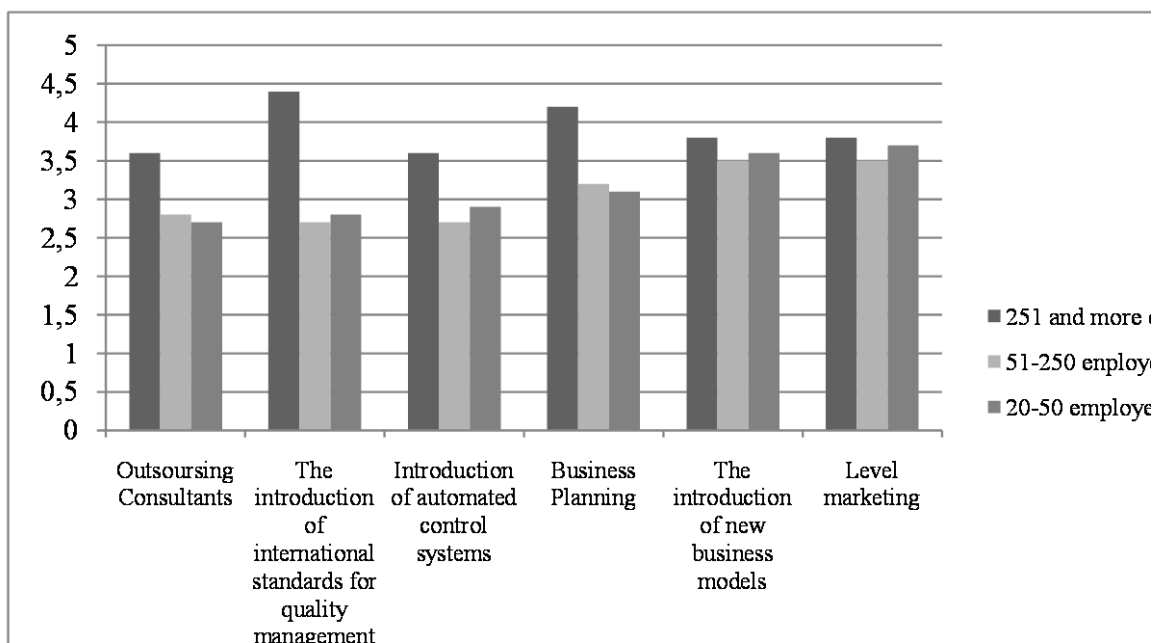
According to the Global Competitiveness Report - 2013 (Global, 2014), the level of corporate ethics among Ukrainian companies is inferior to most other countries included to the report, ranking Ukraine at 130<sup>th</sup> position among 148 countries by this indicator. Such a low

result confirms the fact that none of the Ukrainian companies has ever been included to the World Most Ethical Companies (annual ranking of the most ethical companies arranged by Ethisphere Institute). We can assume that such low ratings of business ethics in the Ukraine is caused by a high level of corruption, low levels of competition, and, to some extent, poor relations with customers.

Ratings of Corporate Ethics prove that Ukrainian business reflects a paradox: business leaders are aware of the corporate ethics importance and some of them even committed to doing business with ethical standards, but in reality ethics in all areas of companies' activity - is more the exception than the rule. The reasons may lie in the possibility of impunity doing business in circumvention of the rules of the market, for example through corruption schemes, as well as resolving problems by violating the existing rules. No wonder that indicators of relationships with business partners, where market mechanisms are employed got best scores for corporate ethics.

The flexibility of the employment market

implies trust between employer and employee that improves the working results of the staff and assists a fair payment for their work. But there is a noticeable gap between supply and demand at the employment market. Thus, only at the official labor market the ratio between demand and supply was 1 to 11 in 2012, even higher than the ratio in 2011, 1 to 8 (according to the State Statistics Service estimation). Moreover, the gap in official salaries between regions is 1 to 2 (Ternopil region and Kyiv, in 2013). Today Ukraine is in a kind of "impasse": an employer is interested in professionals, but is not ready to provide high salary, trainings, career promotion, on the other hand qualified employees are not satisfied with working conditions and are not motivated to professional advancement. This is confirmed by estimates of Global Competitiveness Report published by the World Economic Forum (Effective, 2013) (Fig. 6): Employers and employees are not willing to cooperate with each other and their relations are largely contradictory (125<sup>th</sup> position among 148 countries in 2013 year).



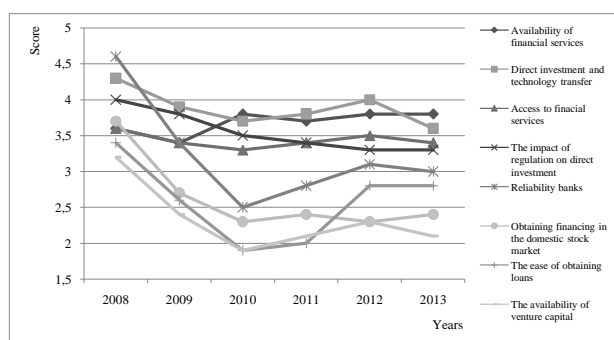
**Fig. 6. The evolution of corporate governance in the Ukraine in 2013**  
 (developed on the basis of Effective Management, 2013)

The situation in Ukraine deteriorates because experience and qualifications are not the main criterion when companies are choosing candidates to leading positions (128<sup>th</sup> place in the world), talented professionals emigrate to other countries (140<sup>th</sup> place with the ability to retain talents and 136<sup>th</sup> place - to attract talents), devolution is unwilling (124<sup>th</sup> place), the relationship between employee and employer is no longer co-operative (125<sup>th</sup> place), companies' management are not interested in professional advancement and personal development of employees (103<sup>rd</sup>). Along with this, competitive advantages of Ukrainian labor market is flexible hiring and firing practices (32<sup>th</sup> place), the ratio between wages and productivity (26<sup>th</sup> place) and the availability of scientists and engineers (46<sup>th</sup> place).

The most negative dynamics in flexibility of wage setting was in period from 2011 to 2013, the loss of 20 positions (79<sup>th</sup> place in 2013). Also, the relationship between employers and employees deteriorated – the loss of 16

positions (125<sup>th</sup> in 2013). At the same time employees' payments became more dependent on their productivity, evidenced by the improvement by 16 positions (26<sup>th</sup> in 2013), and business top managers began to pay more attention to staff professional development, as evidenced by the rise at 14 positions in Global Ratings (103<sup>rd</sup> place in 2013).

Resources available at an enterprise will influence corporate culture level only when its formation and development is appropriately supported. There is an evident shortage of financial resources at domestic industrial enterprises, what results in the reduction of investment activity. In the conditions of limited lending companies are forced to raise funds by issuing securities, but such opportunities are limited because of the small volumes of Ukrainian Stock Market (Fig. 7). Moreover, regional and branch differences in the possibilities for companies financing are significant.



**Fig. 7. The evolution of financial development and investment in Ukraine in 2008-2013**  
 (developed on the basis of Effective Management, 2013)

As shown in Fig. 7 in recent years almost all indicators characterizing the financial market development and investment attraction have deteriorated in Ukraine. And this deterioration affected both the place in the world ranking, which means the loss in the global competition, and scoring (except financial services), which means reducing the development of domestic financial market.

The level of corporate culture at Ukrainian industrial enterprises is rather low. In these conditions managers should effectively apply the companies' potential to mobilize its capabilities and improve existing mechanisms.

### **3. Micro factors and their influence on corporate culture.**

Influenced by micro factors corporate cultures of various enterprises will always differ. This is due to the social status of employees, their education, religious and political views, ethnicity, talent and other individual characteristics. Every employee's individuality is an important factor determining the socio-cultural features of every group of the organization. Individuality causes the desire to communicate with people of similar interests, temperament and socio-cultural preferences for more comfortable interacting.

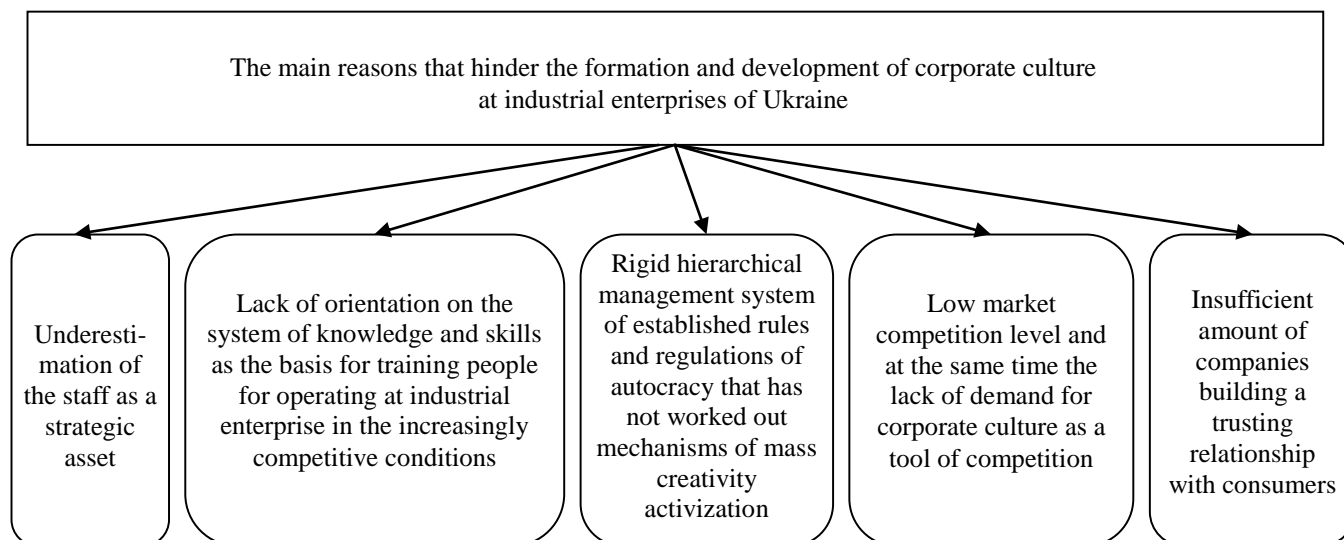
One of the main micro factors influencing corporate culture is the quality of higher and vocational education. Thus, educated and skilled employees are more able to understand and accept the values of corporate culture, be creative and initiative, are prone to self-improvement and changes, rotation and professional development.

Ukraine's competitive advantages in this area are determined by a number of factors. First, a relatively large number of young people in secondary and higher education, a developed network of educational institutions,

wide opportunities for higher education and a strong scientific base. Second, a strong school of mathematical and natural sciences (32<sup>nd</sup> place) which remained from former Soviet Union. Separate reforms should also be mentioned such as the introduction of independent testing for school graduates. This aims to reduce corruption and increase the guarantees of equal entrance to high school. But still the competitive position of Ukraine according to this component is insignificant due to low quality of education in management schools and economic universities. Although individual ratings position domestic business schools quite decently (Ranking, 2013). Vocational education experiences similar trends. Despite some progress in development of staff training services, companies continue paying insufficient attention to the system of vocational education and retraining. This reduces the competitiveness of human resources regarding the increasing globalization and rapidly changing work environment.

The analysis of statistical information conducted and authoring research allow to define factors that hinder formation of corporate culture at the mesolevel (Fig. 8).

The obtained results give reason to believe that on its way to development corporate culture in Ukraine needs a number of changes: replacing bureaucratic structures by more mobile and market oriented; the formation of socially responsible business positions; development of new, long-term HR management practices aimed at the participation of employees in company affairs, social partnership and others. Formation of corporate culture in Ukraine can not be identical to similar processes in Western countries.



**Fig. 8. The reasons that hinder the formation and development of corporate culture in industrial enterprises Ukraine (authoring)**

### **Conclusions and further researches directions.**

Summary of the factor analysis results proves that the formation and development of corporate culture at domestic enterprises should definitely rely on fundamental research of foreign scholars, the creative application of "western" economy enterprises achievements. On the other hand obligatory is the consideration of specific features and characteristics of domestic economy and development of political and legal, socio-cultural, technical and technological components of environmental management. The authoring systematization of factors influencing corporate culture allows to analyze their impact on macro, meso and micro levels. The produced analysis, revealed problem areas on each level, obstacles to the establishment and development of corporate culture at enterprises of Ukraine, and also enabled to elaborate recommendations on the management of these processes. Based on the results of the analysis it is evident that macro- and microfactors are external and

mezofactors (adaptability of business and corporate management, corporate ethics, corporate social responsibility and personnel policies, corporate finance) are internal to the enterprise.

The results can be used as a methodical assistance to industry management in developing the system of administrative measures for the formation and development of corporate culture. The research enables to apply results in order to neutralize the negative or enhance positive influence of macro- and microenvironment factors, to adapt the to their activity and direct the mezosenvironment activity to the right direction. This will result in compliance of internal factors of corporate culture to external factors, and ensure their mutual interaction. Further research should focus on developing methodological approaches to diagnosis of the enterprises' corporate culture regarding the activities of selected factors of influence.

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