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EXISTENTIALISM IN SLOVENIAN DRAMA AND THEATRE
IN THE PERIOD AFTER THE WORLD WAR II

Matic Batič

ITALIJANIZACIJA SAKRALNE ARHITEKTURE NA GORIŠKEM
V ČASU MED SVETOVNIMA VOJNAMA

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VLOGA NEKRŠČANSKIH VERSTEV V APOLOGETIKI PROFESORJA
LAMBERTA EHRLICHA

Zoran Vaupot

NEW INSTITUTIONAL ECONOMICS AND FDI DETERMINANTS

Fakulteta za pravo in poslovne vede, Katoliški inštitut
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New Institutional Economics and FDI Determinants

Abstract: The institutional reforms in many countries since the 1990s were introduced to attract more inward foreign direct investments (FDI). The findings of institutional theory and its economic application within the concept of the new institutional economics have confirmed its benefits as a valuable framework in analyzing the FDI determinants and for supporting the creation of the appropriate economic policies. After evaluating the theoretical concepts of institutional theory, new institutional economics and selected empirical research on the role of institutions as FDI determinants, we conclude by focusing on three research areas and related improvements that deserve additional attention from interested scholars. These are: introducing and generalizing the use of governance indicators at the regional level, better understanding the impact, and strengthening the importance of informal institutional variables in empirical models of FDI flows and emphasizing sectoral analysis of FDI determinants.

Key words: institutional theory, new institutional economics, institutions, FDI determinants

Nova institucionalna ekonomika in determinante tujih neposrednih naložb

Izvleček: Institucionalne reforme so bile v številnih državah od devetdesetih let 20. stoletja uvedene s ciljem, da bi pritegnile več vhodnih tujih neposrednih naložb. Ugotovitve institucionalne teorije in njena uporaba v konceptu nove institucionalne ekonomike so potrdile njene koristi kot dragocen prispevek pri analizi determinant tujih neposrednih naložb in podpori oblikovanja ustreznih ekonomskih politik. Za ovrednotenjem teoretičnih konceptov institucionalne teorije, nove institucionalne ekonomike in izbranih empiričnih raziskav o vlogi institucij kot determinant tujih neposrednih naložb, se osredotočamo na tri raziskovalna področja in z njimi povezane konceptualne izboljšave, ki si zaslužijo dodatno pozornost zainteresiranih raziskovalcev. Te so: uvedba in splošna uporaba kazalnikov upravljanja na regionalni ravni, boljše razumevanje vplivov in krepitev pomena spremenljivk neformalnih institucij v empiričnih modelih tokov tujih neposrednih naložb ter poudarek na sektorski analizi determinant tujih neposrednih naložb.

Ključne besede: institucionalna teorija, nova institucionalna ekonomika, institucije, determinante tujih neposrednih naložb

Introduction

The phenomenon of rapid growth in the volume of cross-border investments since the 1980s has been followed by the increasing interest of academics trying to explain its determining factors. Especially since the 1990s, the transitional

and developing countries have become very interested in institutional reforms to attract larger shares of foreign direct investments (FDI). In the academic world, in typical cases of research, the different sets of standardized indicators and internationally collected data are empirically analyzed and serve to formulate the conclusions of scholars who are oriented toward proposing the policies for supporting the macroeconomic goals of governments to attract more FDI of the desired types and directing them into strategically important business sectors. In this research area, the findings of institutional theory and its constitutional part, the concept of new institutional economics (NIE) contribute to establishing the qualitative foundations for the creation of standardized indicators.

The main objective of our study is to present the conceptual advantages, but also to point out the main shortcomings and areas for improvement of the presented institutional concepts when used in the context of FDI analysis. To achieve this goal, we first propose an overview of the development of institutional theory and NIE. This is followed by the presentation of different sets of indicators that explain the determinants of foreign direct investment flows. In the discussion chapter we try to evaluate critically the contributions and limits of the presented use of NIE findings as explanatory support in FDI movements. The last chapter is devoted to the closing remarks and proposals of exposed future research topics within the NIE concept.

Theoretical background

Institutional theory

With its roots in the nineteenth century, the institutional theory includes different theoretical concepts, mostly, but not exclusively, from economics, sociology, and political science. Max Weber, considered, together with Émile Durkheim, as one of the founders of modern sociology, is well known for his analysis of the legitimacy of different authority types, which was later used by many organization theorists. The concept of institutional theory, which suggests that organizations are social systems, can be presented as an important research area under the umbrella of behavioral theories of organization, based on the premises of bounded rationality, where “behavioral” expresses the focus on actual decision-making, grounded in empirical observation. (Greve and Argote 2015) According to Wezel and Saka-Helmhout (2006), the connection between the concepts of behavioral and institutional theory was established when the scholars discovered that the organizational change processes analyzed by behavioral theory are influenced by the institutional context.

As stated by Vailatti et al. (2017), the three fundamental currents of institutional theory are the old institutional economics (OIE), the new institutional economics (NIE) and the new institutional sociology (NIS). According to Kherallah and Kirsten (2001), the disciplines of history, business organization and law should be added to those above to complete this vast concept. In consequence, different branches of institutional theory exist and refer to various disciplinary

approaches and traditions: sociological institutionalism, economic institutionalism, political institutionalism, historical institutionalism, ecological institutionalism etc.

To avoid including the fields-based definition, which mostly communicates an overwhelming importance of the concept, more qualitative descriptions may be used instead. For example, institutional theory: “emphasizes the formal and legal aspects of government structures” (Kraft and Furlong 2017, 149), “considers the processes by which structures, including schemas, rules, norms, and routines become established as authoritative guidelines for social behavior” (Scott et al. 2004, 2), or “examines ways in which organizational structures, norms, practices, and patterns of social relationships are connected to the broader social and cultural environment.” (Anagnostopoulos et al. 2010, 340)

According to Lang (2007), “there is a tendency to differentiate the new from the old institutionalism by shifting the focus from formal and material institutions (such as regulations, statutes and laws) to informal and immaterial institutions (such as norms, beliefs and routines).” (Lang 2007, 1) The other criteria of differentiation in comparison to the “old” or “original” institutionalism, introduced by the new institutionalists, are distinctions between organizations and institutions, a focus on the relationship between individual actors and organizations, and understanding of human behavior within institutions “made of symbolic elements, social activities and material resources.” (Scott 2013, 57) In other words, old institutionalism treated organizations as an organic entity, with the focus on the state administration and decisions based on the rational choice.

New institutionalism introduced more focus on individuals as a constitutional part of institutions, their individual preferences, which are not always rational, but also on their opportunistic behavior.

New institutional economics

As one of the main currents of institutional theory, the institutional economics (IE) introduced the concept of institutions into economic theory. Chavance (2008) writes that “the manifest significance of the informal realm in systemic change has contributed to a gradual shift in economic theory from a de-institutionalized and market-centred analysis to a more institutional approach.” (Chavance 2008, 57) Although the roots of IE are generally attributed to the two famous articles of Ronald Coase (1937, 1960), Richman (2019) points out that the research by nineteenth and early twentieth century political economists should also be considered as an important source of the concept. Thorstein Veblen, Wesley C. Mitchell and John R. Commons are usually designated as its founding fathers. According to Hodgson (2000), the term “institutional economics” was first used by Walton Hamilton in 1918. Hodgson proposes that the most important characteristic of the OIE is that individuals are not treated as given but rather as influenced by their institutional and cultural situations.

This original concept named later also as the “old institutional economics” dominated the economic science in the USA until the 1940s. The invention of the term “new institutional economics” is attributed to Oliver Williamson

(1975) who is considered as one of the most important contributors to the concept which has reappeared in its “renewed” version since the 1970s when economists again became more interested in institutions. The literature on NIE implies that the neoclassical concept, dominant in the 1950s and 1960s, with its rational utility maximization and search after the equilibrium, emerged in Europe in the nineteenth century and, since the 1930s, was developed mostly by the Chicago School of Economics. This idea, along with the macro-analytical concept (the Harvard tradition), does not provide enough insights for the analysis of economic development. This is especially true of the neoclassical concept which is mostly based on natural law (which provides a fixed structure, reduces uncertainty, and assumes passive individuals only responding to the environmental impulses) rather than active, individualistic human organization within the institutional framework. We could find the roots of this approach in the eighteenth century when the world view, influenced by the work of Isaac Newton who claimed that divine order and law were replaced by natural order and law, has appeared as the framework for many intellectuals and scholars. (Atkinson 2004) To put it differently, the neoclassical and macro-analytical concept deals with the functioning of markets, but not on their development. (Vitola and Senfelde, 2015)

The Society for Institutional and Organizational Economics (SIOE) promotes the NIE concept as “using approaches drawn from economics, organization theory, law, political science, and other social sciences.” (SIOE 2021) In consequence, the presence of so many different approaches within the concept raises questions about referring to the

NIE as a school of thought. (Dequech 2015) In scientific literature we can find various classifications to define the NIE and make distinctions between its different strands. According to Pejovich (1999), “the four principal concepts upon which the new institutional economics rests are informal institutions, formal institutions, property rights, and transaction costs.” (3)

Williamson (2000) characterizes the NIE and its scope by introducing distinction between four levels of analysis: social embeddedness (informal rules), institutional environment (formal rules), institutions of governance (analyzed by the transaction cost economics) and resource allocation. Richter (2005) distinguishes between the “invisible-hand approach” line (self-adjusting processes) and the “visible-hand approach” where transaction costs are needed as an explanatory element. And, finally, Richman (2019) proposes the “governance branch” (operationalized by transaction cost economics) and the line that puts attention on the “institutional environment” which defines the general framework for people’s interactions. Dequech (2002) concludes, in rephrasing Mayhew (1989): “she attributed to NIE the aim of making institutions endogenous by explaining them with the tools of neoclassical theory, so that institutions are chosen by individuals and not allowed to condition individual choice.” (Dequech 2002, 566)

Institutions

As one of the principal concepts of institutional theory and also institutional economics, the institutions had been discussed since the days of the first political economists from the eighteenth century, for example, Adam Smith. (Dequech 2015) The overwhelming importance of institutions is well described by Teraji (2018): "The underlying institutional framework is possibly the key to understanding why some societies have remained mired in poverty, and others have attained high welfare levels." (Teraji 2018, 1) In connection with this statement, the logical premise, that the behaviour of individuals changes when institutions appear, is justified. However, since institutions are based on shared cognitive rules, "it is crucial that individuals have a common understanding of the same situation or action, and attribute to it the same meaning." (Teraji 2018, 11)

Several referential definitions of institutions and their sub-concepts, formal and informal institutions originating from different currents of the institutional theory concept, are presented in Table 1 (general definitions) and Table 2 (definitions considering the formal and informal distinctions of institutions).

Table 1: Selected definitions of institutions. General definitions.

Authors	Institutions are ...
North (1991, 97)	Humanly devised constraints that structure political, economic, and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights).
Steinmo et al. (1992, 2)	Formal organizations and informal rules and procedures that structure conduct.
Edquist and Johnson (1997, 46)	Sets of common habits, routines, established practices, rules, or laws that regulate the relations and interactions between individuals and groups.
Hodgson (2006, 13)	Systems of established and embedded social rules that structure social interactions.
Greif (2006, 30)	A system of rules, beliefs, norms and organizations that together generate a regularity of (social) behaviour.
Scott (2008, 48)	Social structures that have attained a high degree of resilience and are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life.

Table 2: Selected definitions of institutions. Definitions of formal and informal institutions.

Authors	Formal Institutions are ...	Informal Institutions are ...
Pejovich (1999, 166–167)	Constitutions, statutes, common law, and other governmental regulations.	Traditions, customs, moral values, religious beliefs, and all other norms of behaviour that have passed the test of time.
Helmke and Levitsky (2003, 8–9)	State bodies (courts, legislatures, bureaucracies) and state enforced rules (constitutions, laws, regulations) enforced by a third party, usually the state.	Socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels.
North (2005, 14, 50)	Formal rules of a society... can be changed by fiat.	Norms, conventions and internally held codes of conduct which are very diverse across culture and evolve in ways that are still far from completely understood and therefore are not typically amenable to deliberate human manipulation.

<p>Holmes et al. (2013, 533)</p>	<p>Rules intended to reduce uncertainty about the activities of organizations by standardizing practices and demanding conformance rules and standards that define the nature of the political process rules and standards that shape the availability and value of the society's financial resources.</p>	<p>Enduring systems of shared meanings and collective understandings that, while not codified into documented rules and standards, reflect a socially constructed reality that shapes cohesion and coordination among individuals in a society.</p>
<p>Golesorkhi et al. (2019, 104–105)</p>	<p>Codified and explicit in nature... constitute rules of the game.</p>	<p>Consist of culture, which is responsible for shaping human cognition, perception, mental models, behavioural norms, traditions, customs, and belief systems.</p>

On the institutions' side, the three elements: regulative systems (constrain and regularize behaviour), normative systems (introduce a prescriptive, evaluative and obligatory dimension into society) and cultural-cognitive systems (shared conceptions that create the nature of social life and define the framework supporting the meaning), are the most important constitutive parts. (Scott 2013) They form

a never-ending moving “from the conscious to the unconscious, from the legally enforced to the taken for granted.” (Hoffman 1997, 36)

The role of institutions is closely connected to their ability to influence the market imperfections and, as a consequence, increase their efficiency by reducing transaction and information processing costs. (Mudambi and Navarra, 2002) Amal (2016) explains the importance of institutions in the IB literature because “in an international environment characterized by the extraordinary mobility of businesses and production factors, legal, political and administrative systems tend to be the only non-mobile framework internationally whose costs determine the international attractiveness of a location.” (Amal 2016, 29)

Institutional determinants of foreign direct investments

The findings of the NIE line that puts attention on the “institutional environment” which defines the general framework for people’s interactions (Richman 2019) are often used for the analysis of the macroeconomic issues, such as FDI determinants, by using explanatory variables of different types of institutions. There is plenty of literature on the key determinants of FDI, but we present main conclusions of selected recent research that also take into consideration the institutional approach.

In emphasizing the role of institutions to attract FDI in eleven former communist European Countries, Fabry and Zeghni (2006) confirm their expectation that FDI is sensitive

to specific and local institutional arrangements. They introduce the concept of institution-based attractiveness, which “reflects the institutional setting that a country may develop at a certain period in order to attract FDI.” (Fabry and Zeghni 2006, 205) The same authors conclude that foreign investors’ decisions are based on the convergence of their expectations and local institutional arrangements; this is especially true in the less developed countries. In the end, the authors briefly put their fingers on informal institutions in more advanced countries that may be of the same importance as the formal ones.

In analyzing the institutional profiles database, derived from a survey conducted in 2001 under the French Ministry of Finance in fifty-two countries, the Fraser Institute database and OECD FDI data, Bénassy-Quéré et al. (2007) analyze FDI stock as a dependent variable. Their conclusion is that institutions matter independently of GDP per capita. “In particular, our results point out bureaucracy, corruption, but also information, banking sector and legal institutions as important determinants of inward FDI. Interestingly, weak capital concentration and employment protection tend to reduce inward FDI.” (Bénassy-Quéré et al. 2007, 780) Ali et al. (2010) confirmed that institutions appear to be a robust determinant of FDI inflows, especially those linked to the protection of property rights. From the sector level point of view, the institutions do not have much influence on FDI in the primary sector. On the contrary, they do have significant influence on FDI in manufacturing and services.

Assunção and Forte (2011) propose a literature review about location determinants of FDI and group corruption,

political instability and weak institutional quality under the “umbrella” of institutional dimension. They explain these determinants could also be included in the location dimension of the eclectic or OLI paradigm. (Dunning 1977) The conclusion is that the institutional dimension is one of the main dimensions of FDI determinants. This is in line with the previous findings of Dunning (2006) who supports the argument about the importance of institutional factors during the FDI decision-making process. Bissoon (2012) analyses the relationship between institutional quality and FDI flows in forty-five developing countries in the African, Latin American and Asian regions and concludes that “macroeconomic stability in terms of a less volatile inflation rate, efficient and less corrupt institutions, a good regulatory framework and political stability would have a positive impact on the FDI inflows of the countries in this sample.” (Bissoon 2012, 54–55)

Masron and Naseem (2017) executed a study that analyzed the impact of institutional quality, proxied by seven variables, to attract FDI into ASEAN. One of the main conclusions was that institutional quality is certainly a necessary but not a sufficient condition to attract FDI. Other characteristics must also be improved to make countries the attractive FDI destination such as: availability of skilled labor, natural resources, and physical infrastructure. In examining the impact of institutional quality on FDI using panel data for one hundred and ten countries for the 2002–2012 period, Peres et al. (2018) conclude that GDP per capita, infrastructure, market size and lagged FDI significantly influence FDI; this is true for both developed and developing countries. For developed countries, the significant impact is also confirmed for the governance variable, which is not the case in developing countries. The

authors conclude that “key governance indicators play an extremely important role in attracting F.D.I. inflows and economic development for both developed and developing economies.” (Peres et al. 2018, 638)

In analyzing different groups of FDI determinants Tocar (2018) points out that there is an overwhelming focus on the importance of economic factors in the previous research when trying to explain the FDI movements. However, he claims that only a few of these factors have their relationships with the FDI confirmed, e.g., market size, level of salaries, liquidity, and agglomeration. Besides the economic, other groups of factors are analyzed in the perspective of their connection to FDI: technological (no pertinent relationship), institutional-political factors (the level of corruption, corporate tax rates and political risk with negative correlation), specific risk factors (no relationship confirmation), population and education (positive correlation), unemployment rate (negative correlation), space factors (only the influence of geographic distance confirmed), entrepreneurial factors (generalizing factors and firm characteristics with confirmed correlation) and cultural factors (uncertainty avoidance is negatively and shared language is positively correlated). The research of Uddin et al. (2019) focuses on institutional determinants of inward FDI in Pakistan. One of their main findings is that several institutional factors have significant impacts on inward FDI: government size, legal environment, trade openness and form of government. That is the reason why these factors “should be evaluated alongside the traditional factors such as GDP, market size, interest rate, and inflation.” (Uddin et al. 2019, 12)

Paul and Jadhav (2019) mainly investigated the countries in Asia and found that infrastructure quality, trade cost (tariff and non-tariff barriers) and institutional quality (rule of law, political stability, regulatory quality and control on corruption) are significant FDI determinants, but with various impacts when considered separately as the primary, secondary and tertiary sector. "Infrastructure quality is important and significant determinant of FDI, particularly for primary and secondary sectors and the trade cost is an important barrier for all three sectors. /... / Fundamentally, institutional and governance factors do not impact FDI inflow in emerging markets significantly in the secondary and primary sector." (Paul and Jadhav 2019, 253) Based on the research of Kauffmann (2007), Sabir et al. (2019) use principal component analysis and combine the six indicators of institutional quality (control of corruption, political stability, rule of law, regulatory quality, voice and accountability, and government effectiveness) into a single composite variable called the Institutional Quality Index (IQI). The empirical analysis uses panel data of countries, with different levels of development, for the period 1996–2016.

The results confirm all indicators of institutional quality positively and significantly influence FDI in developed countries, which is partially true in the case of developing countries where only control of corruption, government effectiveness and political stability have positive and significant impacts. The use of IQI reveals a positive impact on FDI for all groups of countries. In testing the impact of institutional indicators and other variables on FDI inflows and FDI stock of twenty-three emerging economies from 2006 to 2015, Bhasin and

Garg (2020) first create three synthetic indices, representing three institutional pillars which are based on twenty-four institutional variables: rule of law, regulatory efficiency and normative institutional environment. All indices become significant: with negative (rule of law and normative institutional environment) or positive correlation coefficient (regulatory efficiency) with FDI.

Discussion

As can be concluded from the theoretical overview above, the institutional approach applied within the concept of the New Institutional Economics, is widely used in research that measures and evaluates the determining factors of FDI. However, the institutional factors used in research are mostly formal institutions, usually based on the concept of Kauffman's (2007) worldwide governance indicators. Of course, this is not the only set of indicators used to compare the international level of institutional development. As stated by Oman and Arndt (2010), "it is important to increase the transparency of governance indicators, in terms of both their construction and their use." (Oman and Arndt 2010, 4) Oman (2000) underlines that the perception of the governance quality strongly affects the perceptions of the potential investors concerning the local policy. For example, we analyzed the research of Bitzenis (2006) concerning the decisive FDI barriers that can be defined as determinants which negatively influence the FDI. He presents several referential researches by different authors and our conclusion is that approximately 75 % of the presented barriers can

be grouped under formal institutions and 25 % as informal institutions.

When trying to find an explanation for this phenomenon, we first consider the problem of measuring the institutions. The problems of measurement can be tackled from different perspectives. The first perspective addresses the question of empirical results when testing the influence of institutions on FDI. The absence of clear evidence from results is often attributed to the problems of methodology, measurement included. (Blonigen 2005; Lim 2001) For example, Ali et al. (2010) note that there are researches that do not confirm the robust connection between institutions and FDI, and explain this observation by the fact that some measures of institutional quality probably do not completely capture the situation of property rights protection in the country. If the measurement of formal institutions creates problems, then it is easily understandable that the measurement of informal institutions can be even more complicated since the task of quantifying the qualitative data quickly meets the complexity of institutional characteristics. (Frericks et al. 2018) The second perspective of the problems of measurement relates to the classical topic of reverse causality, also called the "chicken or egg causality dilemma." If we confirm connection between the institutions and FDI then both types of causality are possible. The better institutions result in more FDI but also more FDI can result in better institutions, since foreign investors put pressure on the local authorities to improve institutions. (Bénassy-Quéré et al. 2007)

Using the same critical evaluation concerning the most widely used concepts of the national cultural models and their usage in cross-cultural comparison, we can expose the problem of measuring the institutions at the national level only. The same observation that relates to the fact that within the same country there can be many cultural differences between the regions, towns or even smaller geographical units that can be applied to the institutions. They are usually only analyzed at national level and are not considering the sector or company level characteristics when analyzing the FDI determinants. But even in the cases when studies do include data from the different levels of institutions, "these studies do not explain much of the fact why FDI is not equally distributed among different sectors at the same time." (Paul and Jadhav 2019)

Conclusion

In evaluating the existing theory on the use of institutional approach in the empirical research concerning FDI determinants, we can point out at least three areas that certainly need additional effort to improve the existing theoretical knowledge concerning the FDI determinants. These areas are: choice of governance indicators, better understanding and inclusion of indicators of informal institutions into empirical models, and institutional level analysis issues.

Concerning the governance indicators, it is important to understand how they are measured. In the international dimension, the different perceptions of the local population within a specific national culture can result in non-comparable data, since personal values influence results that must be

very carefully compared internationally. In addition, we propose the introduction of the measurement of governance indicators at the regional level, at least in the cases of countries with a larger area or decentralized policies. The specific local situations with heterogeneous cultural characteristics may differ significantly from the average national results and thus could better explain FDI movements in certain cases, especially when gravity models are used in the analysis.

The literature overview clearly shows the existence and growing importance of various informal institutions. To avoid the problems of measuring the informal institutions and to be able to include them into empirical models, scholars often equate the informal institutions with the culture, which serves as an approximation. The next step is the use of selected cultural dimensions which are a constitutive part of popular models of the national culture. Too many approximations can lead to unacceptable results, so we propose to put more effort into the research of better understanding, more precise definitions and, consequently, more precise measurements of informal institutions as FDI determinants. We believe that these improvements can overcome one of the main theoretical shortcomings of using the NIE approach to explain FDI movements: explaining not only how but also why certain institutions, especially informal ones, affect FDI movements in certain ways and with the observed outcomes.

The institutional level issue is certainly very important but there is also the derived danger “not to see the forest for the trees.” Besides the national institutional level there must be a wise choice in research definition to select the appropriate industry-level institutions to establish a theoretically

well-founded analysis and comparison when evaluating the FDI attractiveness of the whole country, but also its selected business sector. We suggest that the generalized use of sectoral analysis to compare FDI attractiveness around the world could lead to better research results that could translate into specifically adapted local policies to attract more FDI.

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