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## THE CERTAIN ISSUES OF MODERN CONCEPTUALISATION OF INSTITUTIONALISM FOR SOCIAL DEVELOPMENT

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### ABSTRACT

This study covers the systematisation of modern theoretical opinions on the role of institutions in social development. The study considered the scientific approaches to key components of institutional theory. The authors highlighted the main features of the concept of institutions as a common phenomenon in the social, political, and economic spheres. The approach to the analysis of institutions from the standpoint of rational and sociological behavioural models was generalised. The study described and analysed various scientific interpretations of institutional theory on an interdisciplinary basis. The author identified provisions of these theoretical approaches, which seem relevant and are of greatest interest to scientists, politicians, and practitioners within the framework of institutional analysis. It was found that from the standpoint of development and implementation of national policy by authorities of different territorial levels, it is important to use the ideas of comparative institutionalism, namely concerning mutual conditionality and interdependence of institutions in different spheres of public life. The research on the implementation of various institutional forms for the improvement of development policy by countries was generalised, based on which the authors identified the importance of complementarity of dialectically interconnected institutions. In this context, the key functions of institutions that are critical for the development and implementation of national policy were described. The study analysed the introduction of such an approach to evaluating the effectiveness of institutions as "institutional distance".

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### INTRODUCTION

Modern research on institutional theory is carried out on a broad interdisciplinary basis and covers almost all spheres of public life. Therewith, the research conventionally relies on the basic provisions of the new economic institutionalism. The main role defined for institutions in society is to establish "rules of the game" to structure human interaction. The economic basis for the introduction of institutions is their impact on

reducing transaction costs that arise within the framework of relations between various subjects of the institutional process. Meanwhile, the intensification of theoretical investigations devoted to institutionalism significantly expands the interpretation of institutions. In this context, it is useful for both scientists and politicians to systematise the possibilities of using various approaches to understanding the role and use of institutions as tools for social development. First of all,

this refers to underestimation of the importance of informal institutions, which significantly affect public policy implementation (Rabinovych *et al.*, 2021). It is important to consider and evaluate the configurations of formal and informal institutions in dialectical unity. Another problematic issue is the unsuccessful attempts at thoughtless transplantation of various institutional forms that were introduced in developed countries at one time. D.C. North's comments remain especially relevant, particularly for Ukrainian realities, stating that formal rules are not significant if they cannot be implemented. Methodological approaches to assessing the effectiveness of functions by various institutions also remain extremely important.

Various aspects of the modern institutional theory are examined in the studies of such world-famous foreign scientists as North (1990); Williamson (2000); Arrow (1974); Ostrom (1990); March (1989); Scott (2013). Therewith, insufficient attention is paid to the generalisation and systematisation of modern approaches to institutional theory, which is a certain way narrows the areas of using scientific developments for social development.

The relevance of the subject is determined by the need to generalise and systematise modern views on the role and place of institutions in social development within the framework of conceptualising various approaches to the development of institutional theory. The innovativeness of the study lies in the systematisation of modern scientific approaches to institutionalism and the use of various institutions for economic and social development (Kupriyanov, 2021). The purpose of the paper is to summarise the latest research on theoretical approaches to institutionalism and their application for the development and implementation of development policy. In the process of preparing the study, such basic research methods as content analysis were used to study modern views on the institution concept development based on behavioural models, systematic and interdisciplinary, as well as comparative analysis, the joint application of which allowed fully examining and generalising the multidimensional and complex nature of the components of institutional theory and its use.

#### **BASIC APPROACHES TO DEFINING INSTITUTIONS**

A significant amount of modern research on institutionalism is based on the theoretical views of developers and supporters of the new economic

institutionalism. In particular, the main provisions of the scientific papers of Nobel Prize winners D.C. North and Ó. Williamson, concerning institutions and their economic content. Institutions are seen as "the rules of the game in society, or more formally, these are restrictions imposed by humanity that shape human interaction. As a result, they structure incentives in human exchange – political, social, or economic. Institutional change shapes the way society evolves, and it is key to understanding historical change" (North, 1990). The latter emphasises the importance of institutions and their evolution for the development of society, which is confirmed by numerous studies.

The main role assigned to institutions in society is "reducing uncertainty by establishing a stable (but not necessarily effective) structure of human interaction" (North, 1990). The economy of reducing uncertainty consists in creating institutions that affect the reduction of transaction costs that arise when market entities that formally have the same rights interact. In common features, these expenses include the costs of shaping the rules, establishing their violations, and implementing appropriate punishments (North, 1990). However, D.C. North noted that several existing institutional constraints increase transaction costs. Therefore, markets as a whole are several institutions: some of them increase the efficiency of exchange, and some reduce it (North, 1990).

Ó. Williamson defines the institutional environment as a set of rules, provisions, and sanctions that create the political, social, and legal framework in which participants in institutional relations are located (Williamson, 2000). Two characteristics position institutions as an extremely common phenomenon. First, institutions can be both formal and informal restrictions. This provision allows institutions to define almost the entire spectrum of human relations (both individuals and their groups within various organisations) in any public sphere – social, economic, or political, at any level (local, national, world), and on any scale, from the family and to relations between states and their associations. The institutional structure of any society (formal and informal, in a dialectical combination) develops a relatively limited range of behaviour of legal entities and individuals. The difference between formal and informal institutions is that formal restrictions are fixed provisions, rules, laws, court decisions, etc. Informal restrictions include conventions, moral and ethical rules

of conduct, informal codes, and so on.

The second characteristic is that institutions are always organised. Scientists have different views on this issue. To the organisations, D.C. North included all groups of people connected by some common goal and united in the framework of their interests – political bodies (political parties, senate, local councils, regulatory agencies), economic bodies (firms, trade unions, family farms, cooperatives), social bodies (churches, clubs, sports associations), educational bodies (schools, universities, vocational training centres), etc. D.C. North persistently distinguished institutions from organisations: the latter exist within the framework defined by institutions (North, 1990). This view of D.C. North regarding the differences between institutions and organisations has repeatedly been the subject of criticism from many researchers, who have noted the vagueness of such a distinction (Barzel, 2002; Hodgson, 2006; Dam, 2006; Faundez, 2016). Therewith, Ó. Williamson focused on organisations as institutional forms – management systems for reducing transaction costs, which implies the existence of "background conditions", such as ownership, laws, provisions, and agreements (Williamson, 1998).

Many scientists believe that the term "institution" refers to the bodies that are created and are responsible for collective affairs – legislative assemblies, executive authorities, and judicial authorities, as well as the rules regarding their development and functioning (Pavan *et al.*, 2018).

A slightly different opinion about organisations was expressed by the outstanding scientist-economist K. Arrow, who referred to organisations not only as authorities and firms: he held the view that organisations are a means of achieving the benefits of collective action in situations when the price system fails. K. Arrow considered organisations as political parties, revolutionary movements, universities, and the church – all associations that develop common characteristics of the need for collective action and resource allocation through non-market methods. According to the scientist, formal organisations are not an exhaustive list of their types. The ethical code and the market system are also interpreted as organisations; the market system has complex detailed methods of communication and joint decision-making. This makes it obvious that participants in organisations can be both organisations themselves and individuals. It is important

to emphasise that individuals tend to belong to many organisations. The purpose of organisations is to take advantage of the fact that many decisions (in fact, all decisions) require the participation of many individuals for their effectiveness, especially in cases of the price system weakness. K. Arrow attributed all these organisations to the institutions, noting that in addition to them there is another number of institutions. These are the so-called invisible institutions: the principles of ethics and morality. These principles are agreements, conscious or not, to obtain mutual benefits (Arrow, 1974).

Instead, Nobel laureate E. Ostrom in the study "The Evolution of Institutions for Collective Action" defined institutions as "a set of operating rules that determine who has the right to make decisions in a particular area, which actions are allowed or restricted, which rules will be used, what procedures should be followed, what information should or should not be provided, and what payments will be made to individuals depending on their actions. All rules contain regulations that prohibit, allow, or require a specific action or result. Operating rules are those that are used, controlled, and applied when people make choices about the actions they will take. In other words, the operating rules are well-known, controlled, and enforced.

Operating rules may resemble formal laws in legislation, administrative regulations, and court decisions. Formal legislation is the main source of operating rules in many situations, especially when compliance is actively monitored and sanctions are applied for non-compliance. When talking about a system governed by law, it expresses the idea that formal laws and operating rules are closely coordinated and enforcement agencies are responsible, like others, for enforcing the rules" (Ostrom, 1990). In some cases, the operating rules may differ significantly from the legislative, administrative, or judicial regulation, that is, from the formalised system of legislation. Thus, it does not refer to organisations as institutions.

The lack of a generally accepted approach by institutionalist scholars on whether organisations can be recognised as institutions, or only rules and regulations are considered institutions, leaves open debate on this issue. The definition of an organisation as an institutional form is supported by the fact that it creates certain restrictions on the implementation of its interests, and thus falls under the broad definition of an

institution. An organisation acts as an object of restrictions (not an institution) when these restrictions – institutions – are external to the "rules of the game" established. It is also important to emphasise that institutions defined as "rules of the game" are often considered by researchers as coordination tools and for this purpose should be clear in their relationships with other institutions and entities (individuals and organisations). After all, the effects of institutions always depend on their integration into the network of other institutions and subjects (Van Assche *et al.*, 2015).

The coordination property of institutions extends to both formal and informal forms, and these forms are sometimes considered as alternative ways of coordination. In modern states, formal institutions are usually fixed in the legislation. Informal institutions often function implicitly and can be observed "retroactively", or they become explicit due to confrontation or rights violation. Not all implicit rules (such as cultural rules) are unofficial. They can be as demanding as the law and can be turned into law when appropriate conditions exist. In addition to formal and informal institutions, the evolutionary governance theory founders propose to consider the so-called dead institutions (Van Assche *et al.*, 2015). Such institutions used to be formal rules and legislative acts that lost their coordination function but have not yet been removed from the legislation and officially abolished. And at certain times they can be re-established. Dead institutions are important for the governance evolution, as they can be re-established as a transfer mechanism between subjects, different institutions, or give actors and subjects new meanings and greater relevance.

Formal and informal institutions that develop each other cannot be understood without relations with each other. Formality destroys and creates spaces for informality. It creates functions for informality and conditions for the transition of formal rules to informal ones. Formality cannot exist without informality, for its genesis and implementation. Therefore, it is inappropriate to refer to the consequences of informality or formality separately: it is necessary to consider the configurations of formal and informal institutions, which should be evaluated as a single whole (Van Assche *et al.*, 2015). This statement is extremely important for the authorities in the development and implementation of public policy when it is necessary to take into account the dialectical unity of formal and informal institutions. Special attention

should be paid to informal institutions since they are mainly of spontaneous origin, which indicates that they are minimally associated with a deliberately calculated type (formal) (Williamson, 2000).

Notably, different versions of the new institutionalism led to different interpretations of institutions depending on the characteristics of human behaviour: from the point of view of rational and sociological models. In a rational behaviour model, preferences are exogenous: a person decides which alternative best maximises benefits and then acts accordingly. Scientists March and Olsen (1989) defined this as sequence logic. In the sociological behavioural model, preferences are endogenous: the individual is socialised into certain values and norms that determine behaviour. The individual evaluates the situation and rather acts in the appropriate in this situation way than considers the consequences. Scientists have determined this behaviour as compliance logic.

E. Ostrom argued that these two models can be conceptualised as the implementation of a basic approach to Institution analysis. In her opinion, everyone is limited by cultural values and norms. Therewith, provisions and values rarely give specific instructions on which action to choose. Within the rules in which society exists, people can choose between different action courses. Individual choice is limited to what is appropriate, but people choose among the allowed actions using sequence logic. In this sense, the two behavioural assumptions do not simply use different approaches to analysing institutions. They both assume that behaviour is limited by rules, and the key objective of institutional analysis is to identify rules that are relevant to the political phenomenon being analysed (Ostrom and Walker, 1991).

Thus, for homo economicus, institutions are tools that strengthen and limit the implementation of exogenously developed objectives and activities, while in the case of homo sociologicus, institutions primarily play a role in establishing the identity of individual actors and their respective perceptions and motivations (Table 1) (Blatter, 2012). Institutions should strengthen the ability of transactions that homo economicus seeks to implement, which indicates: (a) providing information to reduce uncertainty, (b) clear decision-making rules, and (c) control measures for transaction entities. Institutions should provide homo sociologicus with: a) hints that help identify previous reference points in a situation to

reduce ambiguity, b) incentives that mobilise individual actions; c) features that bring consistency to interactions of collective actors (Blatter, 2012).

Table 1. Identifying institutions for different behavioural patterns.

Model type	characteristics/model	Homo Ecopomis (sequence logic)	Homo Sociologicus (compliance logic)
Type of actions and relationships		strategic action transactions	social action, interaction, and communication
Actor's orientation		self-centred	External (alter-often together with ego -)
Understanding institutions		institutions as an external context of human behaviour conditions	institutions as internalised reference points for human behaviour
Functions of institutions for actors		a tool for providing opportunities for objectives implementation	a way to express your identity
Functions of institutions for society		aiming	integration
Specific mechanisms	institutional	transaction information, decision-making and control measures	acceleration: accelerating interactions: identification and compliance
Information functions		reducing uncertainty	reducing ambiguity
Type of non-individual actors		Organisations, corporate actors	groups and movements, collective actors

**FEATURES OF CONTENT INTERPRETATION, FORMS, AND CHARACTERISTICS OF INSTITUTIONS IN VARIOUS THEORETICAL APPROACHES**

Considering various approaches to defining institutions, it is also advisable to take into account that institutional theory was developed and continues to be developed on an interdisciplinary basis, and, as a result, institutions are defined taking into account various conceptualisations.

In particular, Hotho and Pedersen (2012) distinguish three components in institutional theory: organisational institutionalism, institutional economics, and comparative institutionalism. Organisational institutionalism arose from attempts to explain the relationships between subjects (individuals or organisations) and their environment (social, cultural, economic, or political) to determine the extent to which institutions restrict the behaviour of these subjects [6]. According to the statements of numerous scientists, such restrictions can have three forms: mimetic, forced, and normative (DiMaggio and Powell, 1983). When environmental conditions are uncertain, organisations try to behave as similar ones do to reduce the possible negative consequences of external influence. Coercive pressure often comes from influential actors who dominate the institutional environment, such as government agencies or other large organisations that

also control resources used by less powerful actors. In this context, one of the conclusions of organisational institutionalism is that in an unstable or heterogeneous institutional environment, actors with favourable social positions can act as "institutional entrepreneurs" and successfully influence what organisational forms and practices are perceived as legitimate (Battilana *et al.*, 2009).

At last, regulatory constraints arise when certain values are questioned or action areas are unclear, and organisations seek a more reliable basis for their legitimacy. Discussions on corporate social responsibility could serve as an appropriate illustration. In this regard, theories of social movements are a useful addition to organisational institutionalism, for a generalised explanation of changes (organisational and social) and the dissemination of practices that are considered legitimate for participants in their institutional spheres (Davis and Zald, 2005).

This context is also extremely important for such a phenomenon as a socially responsible investment in the person's development, a separate territory, a country as a whole, as mutually related and mutually conditioned processes. The fact that the many challenges that humanity faces cannot be solved solely by one player – the state – create demand for management to become a multi-stakeholder endeavour. A similar shift in

governance is also emerging as governments and politicians themselves become limited in their response to rapid technological innovation. This conditions a new role for the private sector and academia, in cooperation with government officials, to conduct expertise on the technologies they promote, their application, and potential consequences (Agile Governance..., 2018).

Despite the lack of a political mandate, technology pioneers actively develop private rules, certificate schemes, standards, social norms or default policies, thus influencing the way of social life. Industrial self-regulation is one of the most important examples of social governance introduced by the private sector in the context of new technologies. It can take many forms from the introduction of market conditions such as price controls, market entry conditions, production requirements, and standard contract terms to social obligations such as environmental controls, safety regulators, or labelling and advertising requirements. Self-regulation has many features that make it more manoeuvrable than formal legislation.

Rule-making, monitoring, implementation, and revision processes can be conducted faster through self-regulation than official legislation, which indicates that consumers can be protected faster. Self-regulation creates a flexible regulatory environment where guidelines continue to evolve all the time, providing space for innovation. Self-regulation helps businesses internationalise ethical behaviour and principles since the rules are based on social provisions and make it possible to interact equally with other partners, rather than obeying prescriptive rules "from top to bottom", thereby increasing the impact on regulation (Agile Governance..., 2018).

Super regulators are a concept introduced by law professor G. Hadfield at the University of Southern California. She argues that the rules and regulations applied by competitive private regulators can, if necessary, be used in the supervision of public regulators. There is an awareness that the private regulation regarding the use of new technologies is under the influence that is being developed outside the conventional sphere of corporate governance. Technology platforms should play a more active role in managing the external management of their systems (Hadfield, 2016).

For public administration research schools, such social movements are particularly useful, as they consider the

political conditions for the diffusion of alternative paths in approaches to institution-building and explain the processes of institutionalisation. For public policy and public administration within the framework of organisational institutionalism, some issues are crucial: how to determine the inter-institutional border of conflicts in the development and implementation of certain policies, how to ensure organisational adaptation to conflicts and the power distribution at organisational levels (in particular in the areas of public services), and how to better understand the consequences of changes in social standards and values that affect the behaviour of individual employees at organisations or professional associations to resist or promote reforms (Reid and Yang, 2016).

Institutional economics is considered one of the key components of institutional theory. Its core principle has been based on the fact that the analysis of economic issues should take into account the social system of society (Myrdal, 1978). The widespread perception of the role of institutions in the economy dates back to the 1970s and 1980s due to the studies of D.C. North and Ó. Williamson, as already noted. The renewed interest in institutions titled the new institutional economy was based on the neoclassical view of markets as distribution mechanisms driven by rational agents with improved information.

The new institutional economy asserts that the nature of exchange processes and the number of "obstacles" depend on the institutional context in which they are carried out. In particular, the extent to which the institutional environment guarantees ownership rights and binding contracts execution affects the level of transaction costs. In the new institutional economics, the effectiveness or quality of the institutional framework directly impacts the functioning and shape of markets and organisations, as well as economic activity. Recognising the existence of formal and informal institutions, the new institutional economy focuses on formal rules and regulations (Williamson, 2000) and how these rules and regulations affect the choice of the management mechanism which organises economic activity.

In this context, the essential difference between old and new institutionalists is that the latter view institutions more as (relatively adaptable) constraints than as a means of individual choice. The use of approaches based on game theory to understand the emergence and

functioning of institutions expanded the theoretical capabilities of the new institutional economics. The approaches draw attention to the interdependence between the game results in different economic areas. New institutional economists are increasingly identifying and investigating the cognitive significance of institutions (Hodgson, 2007), as well as the interdependence among them (Ostrom, 2005).

The third dominant Institutional approach is comparative institutionalism, which was formed in political science, labour sociology, and comparative political economy. Similarly, to the new institutional economics, it deals mainly with institutions at the national level, although institutions at the subnational level are also in the spotlight (Lane and Wood, 2009). Comparative institutional approaches seek explanations for the differences in socio-economic organisation between countries. This approach proves that implicit differences exist among market economies and that these differences can have a significant impact on the structures and practices of various societies (Harzing and Sorge, 2003).

In addition, within the framework of comparative institutionalism, relationships between different subjects of development within the country are also important (Romaniuk, 2018). The state and society always act as complementary institutional forms of society. Socio-economic development in society takes place in the necessary basic conditions: ensuring macro-stability and general rules of the game (the state) and the development of conditions for ensuring microeconomic efficiency, appropriate social policy that supports this effectiveness, as well as effective resolution of issues and conflicts that arise for economic entities (society). This creates a so-called microeconomic institutional environment that reduces transaction costs and the risks that accompany the economic activity.

The core feature of comparative institutionalism is that institutions in various social spheres, such as the education system, healthcare, as well as the financial system, and market relations, are considered mutually conditioned and mutually dependent (Sahaidak *et al.*, 2021; Slutskiy and Blanchard, 2021). Hence, comparative institutionalism asserts that institutions in society often develop interdependently and mutually strengthen each other. As a result, institutions in developed countries often develop a relatively stable

and complementary configuration, which helps to establish such specific strategies, approaches to issues, and general decision-making rules that create predictable patterns of subjects' behaviour within the system (Jackson and Deeg, 2008).

Comparative institutionalism considers institutions not as independent constraints, but as part of interrelated, culturally based solutions to economic and social coordination issues. In this context, the forms, practices, structures, and capabilities of firms and other organisations reflect their institutional context. In this regard, comparative institutionalists conventionally rely on significant qualitative analysis to characterise the interaction between institutions and social and economic activities (Redding, 2005).

In addition to the above-mentioned components of institutional theory, many scientists also distinguish several variations of the new institutionalism (Lahat, 2019). In particular, it includes institutionalism of rational choice, historical institutionalism, and sociological institutionalism. Although they all focus on institutions, their assumptions, interpretations, and points of view are different (Lowndes and Roberts, 2013). Thus, rational choice institutionalism is based on the assumption that institutions influence the preferences of rational people to maximise their usefulness. Therefore, the formal and informal structure of institutions leads individuals and policymakers to strategies that maximise their benefits within a particular context, based on the obtained information (Ostrom, 2011). According to rational choice institutionalism, institutions exist for as long as they serve the needs of individuals and disappear when they stop serving these needs (Immergut, 1998).

Historical institutionalism focuses on the study of contemporary aspects and historical roots of social and political interests and power relations between different actors and their groups. It also explores the political structures that create, maintain, and change institutions (Lowndes and Roberts, 2013). Some representatives of this field argue that although it is more acceptable to consider institutions as exogenous about the policy process they are intertwined. Public policy affects institutions and concurrently is influenced by institutions. Therefore, they are not separate entities (Baumgartner and Jones, 2002).

Sociological institutionalism focuses on interactions between actors and institutions. It considers the

importance of different norms and cultures about their impact on human perception and behaviour. This approach uses constructs that create norms and the effect of cognitive elements that influence behaviour and choice in organisations and society (Lowndes and Roberts, 2013). These norms are generally accepted rules of behaviour and social attitudes within a social group. Although these norms may be less visible than codified laws, they significantly impact the subject's behaviour. The scientific literature convincingly indicates how social norms arising from social and identical groups, professional associations, business practices, etc. regulate the vast majority of human behaviour. Social norms are a fundamental way to increase socio-economic activity by aligning people's expectations about how other social sanctions perform. Thus, shame, loss of reputation, or, at certain times, sanctioned violence are powerful means of encouraging cooperation to prevent what is considered antisocial and deviant behaviour (Platteau, 2000).

Thus, different theoretical institutional approaches determine a different interpretation of the content, forms, and characteristics of institutions. This is important to understand and consider in regards to the study of the institutional influence on the development of different societies.

### **FUNCTIONS OF INSTITUTIONS IN THE COUNTRY'S ECONOMIC DEVELOPMENT**

The role of institutions in economic development is considered extremely important: there is no economy without an appropriate "economic constitution", which indicates the interdependence between existing political institutions and market benefits (Underhill, 2007). Countries that are safer, more developed, and more equitable have better indicators, which proves the effectiveness of numerous institutional forms. This implies that certain types of institutions determine a higher level of development, which encourages the implementation of institutional reforms aimed at achieving those institutional standards that are often attributed to institutional transplants. In other words, the success of the development is determined by the characteristics of formal institutions (Governance and the Law...,2017). Therewith, in cases where transposed institutional forms do not lead to the desired results, it is due to institutional weaknesses and the proposed solution is to "improve institutions".

As world experience indicates, not everything is certain regarding the "best" institutional forms and their thoughtless implementation. The difference arises between the institutional rules that can be optimal about economic theory or how more successful and advanced countries operate with them, and the rules that can be implemented in the given historical and political conditions of specific countries. D.C. North emphasised that the existence of a formal rule is not significant if it cannot be implemented (North, 1990). The meaning of this statement is often ignored. Most developing countries have many rules that are only effective theoretically. In practice, the reality is often quite different. If it is not considered plausible to implement a number of these rules in any effective way in a particular country or to implement improvements in governance capabilities that could improve the implementation of these rules within a reasonable time frame, these rules may not be accepted as policy priorities in a practical sense.

Developing countries are often criticised for attempting to implement overly ambitious intervention programmes. Frequently, the same countries encourage the launch of programmes to improve the rule of law, reduce corruption, improve government accountability, and other ambitious measures (Maksymov and Satokhina, 2021). The researchers argue that this cannot be achieved in the medium term to the extent that it has a significant impact on the country's economic transformation. Therefore, the transition to perfect rules, which is the norm for developed countries, should not be a key priority in the growth strategy of developing countries. Accelerated growth even in the medium term does require appropriate policies and institutions, and this compliance demands specific requirements for various complementary institutions dialectically linked if they are to be successfully implemented (Khan, 2011).

On the other hand, it is extremely important to pay more attention to how institutions function in practice than to what form they take. The World Bank identifies commitment, coordination, and cooperation as the three key functions of institutions that are necessary to ensure that rules and resources are aimed at achieving the desired development results. The effectiveness of policies can be explained by how well and successfully institutions perform these functions (Governance and the Law, 2017). Commitment is key to long-term policy

support to ensure that promises are fulfilled. Coordination consists of setting expectations to ensure complementary actions. Whereas, cooperation consists in limiting opportunistic behaviour to prevent a "fare beat". Coordination and cooperation involve voluntary consent, i.e., a desirable social action is something that people want to take. These terms come from game theory, which proves that it is in each player's best interest to perform a certain action if there is the confidence that all other players are doing the same. Achieving coordination requires the development of policies that provide an understanding that each entity will take the desired actions. At times, this is accompanied by providing incentives for individual subjects to perform certain actions first so that others imitate their behaviour.

In the game theory, the "prisoner's dilemma" is also known, where the collective benefit resulting from cooperation is always at risk of each player being tempted to have a greater incentive for a "fare beat" (use of the common good without corresponding expenses). Encouraging cooperation involves providing a reliable mechanism for promotion or penalties for compliance/non-compliance with the desired actions. Commitment refers to the ability of entities to execute transactions. The lack of mechanisms for each entity to comply with its obligations significantly affects the implementation of agreements for collective benefit. Attachment mechanisms allow subjects to transform the game in such a way that the incentives for each are aligned. Commitment mechanisms allow ensuring the reliability of policies over time, even when circumstances change. In this sense, institutions can be considered as technologies that allow society and individuals to participate in achieving long-term goals, even when circumstances change.

In theory, fulfilling obligations over time builds trust in institutions and increases voluntary compliance with certain rules. Empirical research results indicate that binding obligations lead to increased cooperation between subjects (Banuri and Keefer, 2016). Trust is a core aspect of achieving development. Trust refers to positive results in terms of economic growth, as well as the activities of the authorities. But what is trust, where does it come from, and why does it matter? The World Bank defines trust as the probability that an actor will commit to other actors based on their past behaviour. In game theory, this is known as reputation (Governance

and the Law, 2017). The literature distinguishes two types of trust: interpersonal trust and institutional trust (Putnam, 2000).

Interpersonal trust refers to trust among individuals. It may emerge from relationships such as shared connections, or it may be a social norm. Institutional trust indicates that society trusts organisations, rules, and mechanisms to apply them. Institutional trust can emerge from relationship-based elements, or it can be a function of recurring commitments. This type of trust is important because it increases legitimacy and ultimately allows cooperating and coordinating activities in the context of voluntary compliance with rules and regulations. Consequently, commitment, coordination, and cooperation constitute key institutional functions that influence policy effectiveness.

Measuring the success of these functions' implementations in institutions in a particular country is the subject of constant attention of politicians, scientists, experts, and businesses. After all, the competitiveness of the state, its regions, and communities in comparison with other countries and at the global level as a whole depends on the effectiveness of institutions. Such assessments attract the attention of foreign investors and multinational companies (MNCs) that evaluate the opportunity to operate in a particular country. In this regard, the most appropriate indicators for assessing the institutional capacity of countries have been sought for a long time. One of these indicators is the so-called "distance" of a country from other countries in various national spheres: cultural, geographical, economic, and others.

The term "institutional distance" has been used since the mid-1990s and has become widespread in international business research (Beugelsdijk *et al.*, 2018; Kukharyk and Nübling, 2021). The term is broadly defined as the distinction between the institutional contours/profiles of two countries, usually the "native" country and the host country for multinational companies. Institutional distance has quickly become one of the most commonly used types of distance due to increased globalisation. MNCs are part of developing countries whose markets are characterised by uncertainty and ambiguity with high political and economic risks, complexity and disadvantages, which is generally defined by the term "institutional voids" (Khanna *et al.*, 2005). Understanding the differences between countries and their impact on business, as well as learning how to

successfully navigate different environments, has become a central challenge for global managers.

Institutional distance provides a broad view of national contexts, considering not only cultural but also regulatory and cognitive elements. Such indicators also allow focusing on dynamic aspects of the context, reflecting important institutional changes in countries around the world. The main idea of institutional distance research is that companies that do business across national borders are embedded and exposed to numerous and different institutional environments at native and host countries, and as a result encounter unique challenges and risks (Kostova, 1999). The extent of such differences (i.e., institutional distance) determines the specific challenges for companies' strategies and management decisions and actions. Numerous studies conducted by scholars and practitioners on institutional distances indicate the need to use different interpretations of institutions from different institutional perspectives for assessments (Kostova *et al.*, 2019).

The institutional distance assessments vary significantly, ranging from individual absolute or relative indicators to complex synthesised and integral indicators. They are regularly published by international organisations such as the World Bank, International Foundations (Heritage Foundation, World Economic Forum). Among them are management indicators, the Economic Freedom Index, The Global Competitiveness Report, Doing Business, etc. Institutional distance indicators that are most widely used to build the above indicators are "voting rights and accountability", "political stability and non-violence", "quality of regulation", "corruption control", "rule of law", "labour market freedom", "monetary freedom", and many others. However, there are still significant gaps in methodological approaches to measuring institutional distances, integrating them with other indicators, and interpreting the results obtained as a result of modelling. This is evidenced by the recent decision of the World Bank to temporarily suspend the publication of the Doing Business rating due to methodological issues (The World Bank has decided to ..., 2020).

## CONCLUSIONS

The dynamic activation of interdisciplinary research on institutionalisation issues over the past three decades has significantly expanded the theoretical possibilities of institutional economics and, as a result, scientists are

increasingly drawing attention to understanding the functioning of institutions as an extremely common phenomenon of society. The emergence of various institutional relations concepts significantly increases the role of coordination institution properties, which are inherent in both formal and informal forms, establishing a dialectical unity and significantly influencing the development and implementation of public policy. Greater attention is being paid to another – sociological – model of individual behaviour, as an alternative and concurrently complementing the dominant rational approach to the analysis of institutions.

Significant potential for understanding new institutional forms is the distinction in institutionalism of several main theoretical areas – organisational institutionalism, institutional economics, and comparative institutionalism. Each of these areas conceptualises institutions, their potential, and their properties in a different way. In particular, organisational institutionalism serves as the basis for spreading the practices of such a phenomenon as a socially responsible investment in human development. The business actively forms private rules, standards, and social norms, thus influencing the way of public life. The potential of the new institutional economics in terms of solving the issues of sharing natural resources, preserving the environment, and providing high-quality public services remains practically understudied and unused, at least in domestic realities.

Comparative institutionalism can serve as a scientific basis for creating effective mechanisms for integrating institutions in various social spheres, which makes it possible to develop a relatively stable and complementary configuration of development strategies with predictable patterns of subjects' behaviour within the system. Conclusions about the inexpediency of thoughtless institutional rules implementation that perform effectively in developed countries are also significant. The transition to perfect rules and regulations of developed countries should take place over time, taking into account the implementation of relevant policies and institutions, and this correspondence implies specific requirements for various complementary institutions that are dialectically related to each other. In this context, it is important to pay more attention to how institutions function than to their form. Measuring the success of these functions' implementations in institutions in a particular country is

the subject of constant attention of politicians, scientists, experts, and businesses.

One of the indicators of countries' institutional capacity is the so-called institutional distance. Institutional distance provides a broad view of national contexts, considering not only cultural but also regulatory and cognitive elements. Such indicators also allow focusing on dynamic aspects of the context, reflecting important institutional changes, including in Ukraine. Having considered this, the demand for further theoretical and practical research on institutional relations is only spreading.

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