



**THE RONALD COASE
INSTITUTE**

Workshop on Institutional Analysis

ABSTRACTS

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**PUBLIC HEALTH SERVICES DECENTRALIZATION PROCESS:
THE SÃO PAULO STATE, BRAZIL, EXPERIENCE**

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The aim of this project is to contribute to the discussion about how to make Brazilian public health system works more efficiently and effectively. Even though health indicators in Brazil have shown a tendency to ameliorate along the last years, the country's position among the World Health Organization – WHO members is still unacceptable. While Brazil is the 56th in the GDP ranking it is only the 125th in overall health system performance ranking.

Nowadays in Brazil local governments are mainly responsible for the delivery of public health services. There is a kind of a consensus that basic health services should be provided by local government. Even though decentralization of public health care is desirable for it helps services come across to population expectations on the other side it brings along a series of coordination and organization problems which could have damaging affects on health goals. Among the problems encountered it is possible to point the large differences in resources between counties, the lack of tradition on designing strategies at local level, the limitation of human resources to perform tasks, the absence of institutions and organizations to support the coordination job and an array of externalities on the supply of health services among neighborhood cities.

This project intends to identify the main elements that could explain the differences in public health services performance among local governments. The bulk of public health care policy in Brazil is set up on the Federal level. Nevertheless there is sufficient space for local level discretion. Decision about the provision of public health services on local level is taken by a set of forums of discussion and decision that includes local organizations as the City Health Council and the Local Health Department as well as many intra and inter level organizations. It is a quite complex institutional framework, which may account to a very expensive process of decision making without necessarily being an effective structure of public health care provision.

The project had chosen in agreement with the São Paulo State Health Secretary a set of eleven cities, which will be followed along 12 months. There will be collect information about revenues, expenses, health indicators and process of decision. The idea is to try to relate the decision making process to the efficiency. Efficiency will be measured according to what the World Health Organization suggests. It will be taken into consideration health indicators (level and distribution), responsiveness (level and distribution) and fairness. We will also relate this concept of efficiency to the traditional economic one, which considers the costs. The main problem of the project is how to measure decision-making process efficiency.

The basic material to be used will be the documents related to the constitution and functioning of the councils, commissions, departments and all other organization involved in the process including the community organizations. This material will provide valuable information as how the members of the commissions are appointed or which are the main rules of decision. But this material will not be sufficient to show how the process really works and so we intend to do interviews with people involved in any respect with public health services at local level of government to try to identify the informal institutions in operation on the assemble the decision-making process documents. By the end July there will begin the first round of the interviews. The second round will take place in January, 2.000. The period between the two rounds will be used among other things to definitely establish the methodological approach of the research to assess process.

The collection of information about revenues, expenses and basic health indicators is basically set. Now we are beginning to which could be the decision-making process institutions that contribute to diminish transaction costs together with to augment the potential of the system for better health indicators, more readily answers and wider redistributive actions.

**PROPERTY RIGHTS AND NATURAL RESOURCES: SOCIO-ECONOMIC
HETEROGENEITY AND DISTRIBUTIONAL IMPLICATION OF COMMON PROPERTY
RESOURCE MANAGEMENT**

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Development of local economy while managing common property resources has emerged as the top resource management policy in **Nepal** in the past few years. This initiative has emerged largely due to a strong disillusionment with the performance of the centralized management policy to provide sufficient incentives to the resource users to manage local resource on a sustainable basis. Participatory resource management is often seen as an appropriate solution to reduce resource degradation and it was thought that granting property rights over the local commons would ensure the equitable and sustainable use of environmental resources. More precisely, when the responsibility of allocating natural resources is delegated to local organizations, communities tend to appropriate these resources for the collective community welfare. The past decade has witnessed an increasing emphasis on community-based resource management with a focus on poverty alleviation. However, despite having the most innovative policies to promote community-based resource management in place, community forestry in Nepal is said to be unable to provide a significant contribution to the livelihood of poor and marginalized people due to its failure to take into account institutional and boarder socio-economic issues like the role of local level **heterogeneity** and equity of resource distribution within the resource using community. The shift of institutional domain from state management to community management has brought about significant changes in the patterns of resource utilization, which have far reaching consequences upon rural poverty. It is evident that some users within a community enjoy better access to the CPR because they possess a relatively large amount of social and physical capital to appropriate and exploit the resources while the poorer users are not able to utilize the benefits available due to some institutional and socio-economic constraints. In many cases, equitable access and use of these resources within the community has not been clearly demonstrated. This has proved that clearly defined rights on common property resources are a necessary but not sufficient condition for efficient, equitable and sustainable resource use. We reconsider the issue of persistent socio-economic inequality in communities and argue that restricting the access of poor people through changes in property rights structure in common property resources is likely to increase the level of poverty unless specific measures of compensatory transfer schemes are in place to safeguard the interests of the most vulnerable section of the community. Though there is an impressive upsurge of theoretical as well empirical literature on the role of socio economic heterogeneity and performance of community-based institutions, none of it has provided solid evidence on equity and distributional implications of local level collective action. This study, therefore, aims to explore how socio-economic heterogeneity of resource users in common property resource management influence the efficiency of resource use, equity of resource distribution, distribution of transaction costs, and empowerment and welfare of community members. The theoretical framework underlying this study, which envisaged to be constructed would be based on institutional approach to resource management (Coase, 1960; Williamson, 1985; Swanson, 1996).

Aspects of socio-economic position of the household, resource use pattern, and nature and degree of dependency on the common property resource will be collected through the structured questionnaire survey. An economic analysis will be performed to assess household level economic returns and to assess cost and benefit sharing arrangements among resource users. **Transaction costs** incurred in resource management process will be quantified. Econometric analysis will be performed with household income from community forest as the dependent variable and socio-economic attributes of the user household as explanatory variables to gain insight in relationship between socio-economic heterogeneity and distribution of economic benefits from the common property forest management. Based on this analysis, extent of transaction costs of community-based resource management will be documented and conclusions on equity and livelihood implications of common property institutions will be drawn. The study will recommend future policy that could facilitate and promote efficient and equitable resource management regime where forest-based livelihoods are a pervasive features of the rural economy.

CENTRAL BANK INDEPENDENCE IN THE CZECH REPUBLIC, HUNGARY, POLAND, AND SLOVAKIA: AN IN-DEPTH ANALYSIS

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As a part of his PhD research, the applicant is focused on the following issues related to monetary policy in the four countries of Central Europe: Central bank independence, its determinants and influences, monetary policy transmission mechanism and inflation, future challenges to monetary policy related to EU and EMU accession. The proposed topic for the workshop is concerned with the first topic.

During most of the communist period, central banks in the region existed only in name. It was only in late 1980s that true central banks became established again in the Central Europe. These changes required substantive amendments of the existing laws, so new laws on central banks were written prior to this action. These laws were generally based on the Bundesbank law and the law on the Austrian National Bank. (Siklos (1994)) They were crucial in establishing a relatively high level of independence. Principal features of the law conducive to independence were the following: relatively long terms of office, well-defined appointment procedure, definition of monetary policy objective, usually in terms of internal and external monetary stability, autonomy, limitations on central bank lending to the government

On the other hand, particularly in Hungary and Poland, there were still some important features limiting autonomy: lack of autonomy in exchange rate policy in Hungary and Poland, short or not well-defined lengths of term of office in Hungary and Poland (later also in Slovakia), need for parliamentary approval of monetary policy in Poland

Under these laws, central banks of the regions became powerful political and economic players that played crucial role in economic reforms and preservation of macroeconomic stability during the following decade. During the following period of early and mid 1990s, legal position of central banks in all four countries remained largely unchanged. This did not mean that there was a political or social consensus concerning the extent of central bank independence. However, due to central bank importance in preserving country's credibility both internationally and at home and also due to EU accession factors, no decrease in legal central bank independence took place during this period even though there were several attempts.

In late 1990s and early 2000s, major changes in central bank laws were passed in all four countries in order to achieve compliance with the Maastricht Treaty. Requisite changes took place in 1997 in Poland, in 2000 in the Czech Republic, in early 2001 in Slovakia and are expected to take place soon in Hungary. However, need to accommodate the Maastricht criteria and substantially amend the central bank acts opened a 'Pandora box' of opportunity to change the statutes also in other ways. Political players in Czech Republic, Poland and Slovakia used it to weaken the actual autonomy of the central bank and autonomy of its career officials from the current governing majority. This can be seen as a backlash against central banks, which were perceived as too powerful and too independent. Ironically, need to make the central banks independent in certain ways to comply with the Maastricht Treaty allowed politicians to decrease their autonomy in other ways not covered by the Treaty.

Contents of the research and its aim

The aims of this paper are twofold. One objective is to conduct an in-depth analysis of central bank independence in our sample of four advanced transition countries. Following Berger and de Haan (1999), the paper also aims to use results of the analysis to evaluate some of the underpinnings underlying theories on central bank independence as well as indices attempting to measure central bank independence.

The following bullet-points present areas, in which a detailed analysis of various aspects influencing actual independence of central banks was conducted, together with an extremely brief summary of the most important results.

- **measurement of CBI by traditional indices**

As already indicated, well-known indices of central bank independence, such as Grilli, Masciandaro and Tabellini (1991) and Cukierman (1992), indicate high and non-decreasing level of central bank independence with the exception of some changes implemented in late 1990s and early 2000s.

- **exchange rate mechanisms and their relationship with CBI**

Even though the exchange rate mechanism is usually ignored in considerations of central bank independence, full

autonomy in exchange rate management in the Czech and Slovak case have had important consequences for monetary policy in both countries

- **other appointment factors not mentioned in the indices**

Two additional properties, labelled political vulnerability of the central bank board members and political complexity of central bank appointments, were identified. The first one is concerned with periods prior to reappointment of board members and with changes in the strategic interaction between the central bank and the government when an increasing number of bank board seats are empty. The second one is concerned with the number of veto players involved in each appointment and how it influences the appointment procedure.

- **constitutional factors**

Constitutional protection of central bank independence does not exist in industrialised democracies, but is widespread in transition countries, with Czech Republic and Poland having the highest level of constitutional protection. This section constructs an index of constitutional protection of central bank independence and analyses influence of constitutional protection of CBI during 1990s.

- **personal independence, rule of law and turnover of governors**

This section complements the statute-reading methodology by analysing turnover of governors in the region and comparing it with the Baltic and other former Soviet countries. The result is that higher legal autonomy is, in this case, accompanied by higher personal stability. The quantitative comparison is followed by case analysis of premature departures, which distinguishes those that were political in their nature and those that followed financial scandal in which a central bank was involved. The latter occurred in all four countries with the exception of the Czech Republic.

- **political vulnerability and politicisation of central banks**

This section shows that during the postcommunist decade, central bankers were often perceived as partisan actors by other political actors. This created perception that it was legitimate to involve them in partisan conflict and also to seek their removal (by legal means). Two principal reasons led to this situation. One factor was political actions by central bankers themselves, by which they involved themselves in partisan conflict that went substantially beyond anything related to monetary policy. Thus central bankers themselves became a 'fair' target of partisan conflict. Second factor was path dependency. Once central bankers became involved in partisan conflict (and were sometimes removed because of it), their opponents and/or successors were also perceived as partisan and each incoming government would see it as its legitimate right to seek removal of central bank top officials it perceived to be on the other side of the partisan divide.

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NEITHER TRADITIONAL COOPERATIVE NOR PUBLIC CORPORATION: ALTERNATIVE COOPERATIVE ORGANIZATIONAL MODELS

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Historically agricultural cooperatives have played an important economic role in market economies as indicated by their substantial asset ownership, sales, and market share in the U.S. and Western Europe. Traditional agricultural cooperatives – with open membership, democratic control, and non-transferable, imperfectly-redeemable, non-appreciable residual claims restricted to member-patrons – emerged in these countries as an institutional arrangement devised to support the independent family farm dominated structure of early twentieth century agriculture. The emergence of traditional cooperatives is theoretically explained as a response to market failures and transaction costs. That is, it is beneficial for farmers to bypass the market and conduct transactions through a cooperative when markets are not competitive due to market power of buyers and/or suppliers, missing input or output markets, asymmetric information leading to quality uncertainty problems, and hold-up situations originating from post-contractual opportunistic behavior of buyers (Hansmann, 1996). However, the traditional cooperative structure faces growing survival challenges as the food system becomes increasingly global, competitive and less regulated by national governments. In particular, many scholars have argued that the economic benefits brought about by traditional cooperatives in ameliorating the negative economic impacts of market failures and transaction costs might be surpassed by the producers' costs of transacting with the cooperative. These transaction costs are generated by the vaguely defined property rights structure of traditional cooperatives that leads to conflicts over residual claims and decision control (Cook and Iliopoulos, 2000).

Yet, traditional cooperatives in advanced agricultural countries are adapting to changes in their institutional and competitive environment – as predicted by Williamson (1991) and Hart and Moore (1996) – by means of a series of organizational innovations. This experimenting with alternative institutional arrangements has caught the attention of scholars documenting the emergence of non-traditional cooperative organizational models. Cooperative models are defined as syndromes of organizational attributes, including ownership, membership policy, voting scheme, governance, characteristics of residual claims, and distribution of benefits.

The objective of this study is to contribute to this burgeoning body of literature but emphasizing alternative cooperative financial models. In other words, the research focus is placed on the diverse, innovative ways cooperatives have pursued to ameliorate their capital acquisition transaction costs. The point of departure is the concept of ownership, which encompasses both residual claim and control rights (Milgrom and Roberts, 1992). Alternative cooperative organizational models differ in the way ownership rights are defined and assigned to the many economic agents tied contractually to the firm (managers, directors, members, patrons, investors, etc.). Based on multiple, embedded case study evidence the study proposes a taxonomy of hybrid cooperative organizational models, in which the traditional cooperative structure (TCS) and the investor-oriented firm (IOF) are seen as polar forms. Additionally, the case study evidence suggests seven additional organizational models that cooperative firms may adopt to decrease internal transaction costs with members. Building upon this proposed taxonomy, the author wishes to perform a comparative institutional analysis to evaluate each cooperative model in terms of their ability to ameliorate the transaction costs of the TCS. It is this institutional analysis of cooperative organizational models that the author hopes to discuss in the Workshop organized by the Ronald Coase Institute.

ILLEGAL MARKETS: THE CASE OF CLANDESTINE SLAUGHTERING

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This ongoing research investigates an underground market, the clandestine slaughter of livestock in Brazil, aiming to identify the key elements of the institutional environment that provide economic conditions for its persistence.

Approximately 40% of Brazilian meat originates from clandestine slaughtering, what constitutes a major problem of food safety. The illegality derives from two sufficient conditions – a) lack of sanitary inspection or b) fiscal evasion – that generally are met simultaneously. There is, as a consequence, a subsystem for the production of meat – defined by the transgression of formal rules – that function in an entire different way. It uses governance structures also distinct, given the impossibility of using contracts based in verifiable information (that can be used by courts).

The literature generally concludes that the main reason for clandestine slaughtering in Brazil is to avoid taxes payments (Jank, 1997) (Silva e Batalha, 2000). This paper also adds two other reasons. First, sanitary norms in regional markets are not enforceable. Inasmuch as slaughterhouses are the main employers in some local communities, local authorities have incentives to be more permissive in their inspections. Second, informal constraints, such as culture, conflict with formal rules, given support to the disobedience of the later.

The governance structures employed in the illegal markets must deal efficiently with exposure and breakdown. In the case of clandestine slaughtering, transactions are generally governed by vertical integration (slaughterhouse and retail) and trust relationship with consumers.

Method of research: The research is based both in quantitative and qualitative analysis. The first is used to measure the magnitude of underground slaughtering through time and regions. The qualitative analysis is based both in semi-structured interviews with agents from both markets (formal and informal) and document examination. The first is used to describe how the informal market operates and to identify the main motives, in agent's perceptions, to be in the formal or informal market. The second provides an objective measure of the costs (obligations) and benefits (expected value of penalties) of operating in the formal market.

LOCAL REGULATORY MISMANAGEMENT IN BULGARIA

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The recent studies on business entry costs in Bulgaria show huge variations in these costs throughout the country¹. They vary between \$3 - \$2,500 (in terms of money) and between 1 – 90 days (in terms of time).

Most of the people there do not pay attention to this fact. But I am curious by nature and would like to know.

Why different individuals face different entry transaction costs across the country?

This is a question of paramount importance for the contemporary Bulgarian economy, which characterizes with favorable macro environment and at the same time extremely high levels of shadow economy and corruption among the state authorities, both reducing the companies' competitiveness and retarding economic growth.

The appropriate answers of this question will give the policy makers a real opportunity to reduce business entry costs. Consequently, it will definitely improve the local business environment, which *should* attract more domestic and foreign investments, and *should* encourage doing business "on light".

The method, which I used in the process of searching for possible answers, was a combination of quantitative and qualitative approach. The quantitative information was collected by structured (close – ended) questionnaires and in depth interviews.

When I combined the quantitative data with thorough analysis of legal and institutional (formal and informal) framework, the following possible answers appeared:

First: obscure local regulatory power

According to Bulgarian legislation the local authorities are entitled to regulate all activities of local significance by issuing ordinances, complied with higher ranking legislative instruments. The legislators, however have forgotten to define what does "local significance" mean. Therefore municipalities pretend to regulate almost everything. This is the main reason for the lack of unified business entry procedures throughout the country. Each municipality issues its own ordinances, prints its own sample forms and introduces its own rules of the game. Hence, generates different entry costs.

Second: civil servants' discretionary power

The formal rules and regulations in the country enable the state authorities to prolong the terms of entering in business. Although all terms are stated in the laws, in fact they usually depend on discretionary decision of one civil servant. But, the longer is the entry period, the higher are transaction costs.

Third: personal networks

Due to the discretionary power of state authorities, the inefficient court system and high corruption perceptions in the country, the entrepreneurs often offer and pay bribes in order to speed up the process of starting business. In that case the differences in costs appear due to the differences in knowledge of appropriate red tape size, how and to whom to offer.

Some of the entrepreneurs, however, manage to solve this problem by using personal informal contacts, such as friends, relatives, colleagues, and so on. But, these networks obviously differ across the individuals and can minimize entry costs with different amount.

Fourth: local knowledge

The lack of accessible official information about what exactly should be done and where, stimulates the transfer of social knowledge in the society. In such non-transparent and opaque business environment the local knowledge becomes very important and valuable thing. The data from the interviews shows that 57.5% of the respondents have used the knowledge of persons who, have already passed through similar procedures. But, because of the discretionary implementation of the rules even past experience is not fully reliable guide.

Fifth: frequent changes in the regulations

The local knowledge however is not a *panacea* for the lack of information problem, because of the too frequent changes in the country business regulations. For example, during the last 10 years 15 of the main business laws in Bulgaria (Commercial Code, Tax Procedures Code, Statistical Law, etc.) have been changed **198 times**. In such constantly changing legal environment the people with better legal knowledge, experience and access to legal data have an undeniable advantage.

Sixth: size of community

The empirical data shows that people in smaller towns pay lower business entry costs. This could be due to the comparatively smaller workload of the administration over there, or which is most probable, due to the specific features of the small community - people usually know each other since they were born, they trust each other and, which is very important, the civil servants there cannot be anonymous. If they do something wrong the society will punish them.

In conclusion, I would like to say that this is just the beginning. The empirical data provoked me, and I started to ask questions and search for answers. Here above, I presented my initial thoughts, which could and will be further developed.

For more details see Gancheva, "Rules, Regulations and Transaction costs in Transition Bulgaria", IME, 2000 or Gancheva, Stanchev, Yonkova "Administrative Barriers to Business", IME, 2000

FUNDAMENTAL ATTITUDES, ELITE BEHAVIOR, AND SOCIAL CAPITAL - REFLECTIONS ON THE DECADE OF TRANSITION IN BULGARIA

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My current research on the economics of transition is focused on the case of Bulgaria over a wide range of issues, and on a number of transition countries with respect to monetary issues. I just completed a research project in cooperation with CASE of Poland on the level of confidence in the monetary regimes in several transition countries, and we are now starting a new research project on monetary transmission in another set of transition countries.

While monetary issues are interesting, often in the transition context they are hardly more than a reflection of more fundamental factors. I endeavor to study these more fundamental factors in the case of Bulgaria, which is a country with a particularly interesting and rich transition experience. Recently I completed a short study on the Bulgarian currency crisis of 1996-1997, which led me to the conclusion that the financial problems were caused by the fundamental modes of behavior of Bulgarian economic agents. I have reached this conclusion on a number of other occasions, when I have tried to explain the low level of investment in Bulgaria and the particular institutional development of the country, applying the insights of the New Institutional Economics.

Studying the Bulgarian transition experience has made me aware of the importance of fundamental attitudes of economic agents for the dynamics of different process during transition. Another important concept, which may be used to analyze the transition processes productively, is social capital, despite the difficulties to define and to operationalize this concept. It captures the ability of a society to resolve societal problems and problems of human interaction, and holds a great problems as a potential explanatory factor for a lot of the variability in the transition experience. A third important element of the transition mosaic in Bulgaria is the behavior of different elites and the juxtaposition of different elite interests, leading to a domination of a certain non-productive elite project. The turbulence of the Bulgarian transition experience cannot be understood without analyzing the behavior of strategically located elites and its impact on economic policies and decisions. In practice, this boils down to studying state weakness and its implications for the Bulgarian performance.

I have done readings and research on all three of the above mentioned factors. Well aware that this list of important factors cannot be exhaustive in the context of an effort to understand the unique, uncharacteristic and multifaceted Bulgarian experience with transition, the promise to provide a good start.

Over the next several months I plan to combine my own past research with that of others, and to attempt to tell the story of the Bulgarian transition accounting for at least these three fundamental factors. I will benefit from the use of results from two surveys of the economic attitudes of the Bulgarians in which I had the opportunity to formulate questions geared towards specific hypotheses concerning the Bulgarians' thinking in terms of cooperative vs. non-cooperative strategies, of state vs. the market, etc. I will also use Douglass North's framework for analysis of economic change, concentrating on the importance of mental models of economic agents and on their learning process as an indispensable part of the analysis. I will also use the achievements of different students of Bulgarian transition, who have analyzed the problems of the Bulgarian development from the points of view of both economics and political science, and who have reached the conclusion that the major consequence of the fundamental determinants of economic behavior in Bulgaria is state weakness.

My intention is to use this context to analyze the decade of transition in Bulgaria, and to concentrate my attention on the interplay between (changing) public beliefs, elite behavior, political and macroeconomic policies and developments. Once told, the story will provide potentially useful conclusions for the possible transition performance of other economies in the region of Southeastern Europe, as Bulgaria is in many respects typical for its region in the beliefs of its people, in the degree of state weakness, in the characteristics of different elites.

**STRUCTURAL ADJUSTMENT POLICIES AND THE ENVIRONMENT
IN SOUTHEAST EUROPE**

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Structural adjustment programs (SAPs) are designed to reform economies to become more liberalized and export-oriented, while reducing the role of governments. The effects of these programs on the environment, such as decreased public expenditure and increased export of resources, have been studied quantitatively only in cross-country studies and computable general equilibrium models. The proposed research will correct for problems of adverse self-selection and will differentiate the effects of SAPs from underlying economic and social developments by employing econometric techniques for program analysis. The effects of these policies on air and water emissions and industry structure will be estimated for several transitional economies in Southeast Europe.

HOW TO MOTIVATE KNOWLEDGE WORKER: EVIDENCE FROM CHINA

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In a rapidly evolving global marketplace based increasingly on intellectual capital, more and more owners of organizations recognize that the core employees are the deciding factor on achieving success.

However, as the owners are coming to this realization, core employees themselves are recognizing their value to employers and in the labor market.

Assuming both employer and employee are resourceful, evaluative and maximizing (REMM) (Jensen & Meckling, 1994).

Employees own their human capital, a combination of person's abilities, behavior, effort and time that an individual is willing to spend on the job. The employees can decide how much of this investment they are willing to contribute. As a human capital owner, the employee want to get the acceptable return from the human capital, which at least includes, intrinsic job fulfilment, opportunity for growth, recognition for accomplishments, and financial rewards.

For the employers, the owners of financial capital, to seek the employee's human capital value out, they have to create an environment that fosters it and develop methods for retaining it. This means adopting the suitable contract arrangement, to make employees willing to contribute their human capital more.

In my project, I plan to investigate some of the core employees in the R&D institute in ZHONGGUANCUN Science Park in Beijing (which is so-called Silicon Valley in China), and to measure the relationship between the core employee's performance with their incentive contract arrangement style to the employers. The project's aim is to add some evidence to above assumption.

The core employees include top R&D scientists or engineers.

Actually, I have finished a survey. I have got about 200 efficient questionnaires back.

NEGOTIATED ORDER IN INTER-ORGANIZATIONAL RELATIONS: TOWARD AN INSTITUTIONAL THEORY OF STAKEHOLDER NEGOTIATIONS

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Grant T. Savage, University of Alabama

Starting from classic essays of March, Selznick and Simon in late 1950s and early 1960s, the political nature of decision-making has been a central argument in organization theories. In 1960s, Anselm Strauss defined organizational decision-making environment as negotiated order. March and Olsen have posited that decision-making is a rule-following act rather than rational process. (Selznick 1957; Simon 1957; Cyert 1963; March 1963; Strauss 1963; Strauss 1978; March 1989) Both negotiated order and rule-following theories see decision making primarily as a political process where intra-organizational bargaining affects the ultimate outcome: realized organizational strategy. (March 1963; Strauss 1978; March 1989) Furthermore, crucial questions in those negotiations are the scarcity of resources and consequently, the relative power of different intra- and inter-organizational interest groups. (Cyert 1963; Pfeffer 1978; Strauss 1978)

Crucial postulates in "political" schools decision-making models are: 1) The products of intra-organizational bargaining (contracts, understandings, agreements, rules) have temporal limits: they can/will be reviewed, re-evaluated, revised, revoked or renewed. (March 1963; Strauss 1963); 2) Negotiated Order (NO) has to be worked at, and the bases of concerted action needed to be continually reconstituted. (Strauss 1963; Strauss 1978); 3) The NO could be conceived of as a total sum of organization's rules and policies, along with agreements, understandings, pacts, contracts, and other working arrangements currently obtained. (Selznick 1957; March 1963; Strauss 1963; Strauss 1978; March 1989; March 1994); 4) Any changes impinging on the NO call for re-negotiation or re-appraisal. (Strauss 1963; Strauss 1978)

Our contribution is to expand negotiated order and rule-following decision making explanations from intra-organizational level to inter-organizational. This said, we build our argumentation on theories about intra-organizational decision-making, and expand their possibilities by parallel readings with new institutional economics and stakeholder thinking lenses that are conceptual tools for inter-organizational analysis. The basic idea in this study is that the negotiated order explanation is valid on both intra- and inter-organizational level. Thus, organizational decision-making is dependent on political processes and negotiations inside organization as well as with focal stakeholders. (citations)

<i>Frame</i>	<i>Authority</i>	<i>Level</i>	<i>Focus</i>	<i>Purpose for this study</i>
Negotiated Order	Anselm Strauss, James March	Intra- organizational	Negotiation processes	Link to the intra- organizational decision- making analysis
New Institutionalism	Douglass C. North	Inter- organizational	Rules of the game	Sketch the institutional context of organizations
Stakeholder thinking	R.E. Freeman; Grant Savage	Inter- organizational	Stakeholders	Create the map of negotiating organizations and their possibilities to threat or co-operate during strategic change processes

The regulatory form of new institutionalism, New Institutional Economics (NIE) (Scott 1995a) builds on transaction cost economics and on public choice theories, as portrayed in Douglass North's conceptual framework. (North 1981; North 1990) For our purposes, and in accord with North's definition, institutions are the rules of the game and organizations are the players. On the one hand, institutions are the informal and formal rules that constrain organizational actions. On the other hand, institutions change over time as organizations exert influence through enacting these rules. Thus, organizations act in the middle of a complex web of written and unwritten contracts and norms that create the incentive structure for strategic choices.

Another way to view business environments is as a set of stakeholders. The relationship between the company and its internal stakeholders (e.g., employees, managers, and owners) is defined by both formal and informal rules that have developed through the history of the relationship. This institutional setting constrains the strategic possibilities of the company. Top management, especially, depends on internal stakeholders to fulfill its intentions. However,

external stakeholders can be equally important. Of these external stakeholders, federal and state governments and the local communities set the formal rules for businesses. Relationships with other external stakeholders (e.g., customers, competitors, special interest groups, etc.) are constrained by formal (e.g., legal) rules and, in addition, by informal rules. Furthermore, Freeman and Evan have defined organizations as a multilateral agreement between the organization and its stakeholders. (Freeman 1990)

Altogether, stakeholder analysis is about who affects strategy making, negotiated order approach tells how the influencing happens and NIE theory primarily deals with the question what kind of rules constraint decision-making possibilities.

Together these three related approaches should give possibilities to analyze decision-making processes in a more inclusive way. To highlight our theoretical claims and to move toward more comprehensive framework of organizations institutional setting, we will use alternate template research strategy (ATS) to analyze merger and acquisition negotiations in airline industry. According to Ann Langley (1999), in ATS the analyst proposes several alternative interpretations of the same events based on different but internally coherent sets of a priori theoretical premises. Furthermore, ATS may be a test of "pattern-matching" or simply alternate "readings" of the material. In any case, ATS gives possibilities to find confrontations between different premises or integrate different level of analysis. (Langley 1999)

For our purposes, ATS gives a possibility to integrate two different approaches to analyze organizations contractual/institutional environment. According to our nine postulates (or premises?), the NIE theory and stakeholder models are internally coherent and clearly complement each other. Hence, they are suitable for the ATS. Most importantly, both of these approaches are based on the same set of behavioral assumptions about individual actors, bounded rationality assumption being the most crucial. Furthermore, both of these frameworks fit with the NO theory that constitutes our link to the intra-organizational strategic decision-making analysis.

Our preliminary propositions are as follows: 1) Organizations' intra- and inter-organizational relations are dependent on on-going implicit and explicit negotiations (about agreements of resource allocation); 2) Stakeholders attitudes and possibilities to influence organizational decision making are dependent on a) their resource-based power position (RB theory; stakeholder theory) and b) their experiences in earlier negotiations (rule following decision making); 3) Organization's relation with its stakeholders is constrained by implicit and explicit agreements; 4) Agreements can be bilateral or multilateral, and informal or formal; 5) Agreements constitute a hierarchical set of rules in which the multilateral agreements are more expensive to change than bilateral agreements (because of transaction costs).

BACKWARD AND FORWARD COORDINATION IN THE BRAZILIAN FRANCHISING: AN EMPIRICAL ANALYSIS

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The rare analysis opportunity of theories related to firm contractual decisions provided by franchising study, as well as its world importance in the products or services commercialization, comes stimulating the worldwide academic interest to the accomplishment of hypotheses tests under the New Institutional Economics focus. However, in spite of economic relevance of Brazilian franchising, it is very little analyzed under economic apparatus, allowing to the accomplishment of countless empiric researches that contribute its best understanding. In this sense, the main reference for development of my ongoing research is the study of the role of franchising in backward and forward coordination, seeking the control on use of brand name.

One of initial requirements to the success of a franchise chain links existence of a reputed brand name, for being this element that assures the interest of potentials franchisees, when guaranteeing, even to a small business, an appropriate insert close to consumer market. Brand name is one of the most important specific assets identified in a franchising, which is why problems related to its use may lead to losses throughout all the chain¹. From this standpoint, it is essential for the success of franchise chains to have an effective forward coordination aimed at strengthening the brand name by smoothing out problems related to franchising (one sided moral hazard).

Generally, franchisor looks for to motivate franchisee to carry out its activities in the best possible way, preserving the chain brand name, by receiving (the franchisee) of any residual profit of its establishment operations. Another form of decreasing the opportunist behavior possibilities on part of franchisee, and, this way, to increase the control on use of the brand name, could be expressed by the interest of chain in management a larger number of units directly. Under this focus, Lafontaine & Shaw (1999)² suggest the hypothesis that the proportion of own units could be represented in function of brand name specific assets, that is to say, as larger the value of the brand name, higher would be the number of own units belonging to the chain. In this sense, my ongoing research seeks, initially, to reply the study done by Lafontaine & Shaw (1999) about American franchising market. It is intended to identify, and to analyze the Brazilian franchising behavior, in what refers the proportion of own units versus franchised ones. In other words, it is looked for (a) to investigate the Brazilian standard of units directly management for the chain (own stores) front to the alternative of choosing for franchise units, and (b) how this proportion changes along the time, and enter different segments of Brazilian franchise market.³

However, as the value of brand name also depends on its capacity to transmit information⁴, is expects that problems not just in the relationship between franchisor and franchisee, but equally related to standardization absence can cause depreciation of this important specific asset. It is waited, therefore, that the brand name control, specifically in the food chains, links to the need of an efficient backward coordination, that is to say, of its supplies systems⁵. In few words, the fundamental purpose of the backward coordination is to provide products distribution in a regular way, in terms of standardization and quality, by diminish of particularities identified in the food products commercialization. Under this focus, Azevedo & Silva (1999)⁶ suggest the hypothesis that the need for adoption of governance structures that ensure higher control of productive chain vary in function of three specific variables: (a) quality strategies adopted by the chains, (b) standardization perceived by consumer, and (c) historical locking.

Basing on these considerations, after the study of Brazilian franchise market behavior in what refers to the proportion of own stores versus franchised units, my ongoing research seeks to analyze the supplies systems management induced by food franchises in function of quality strategies adopted by chains, in harmony with standardization perceived by consumer, and the influence of historical locking. By means of this research proposal, it intends to investigate the backward and forward coordination induced by franchising, seeking to guarantee the control on franchised brand name use.

¹WILLIAMSON, O. E. (1991). Comparative economic organization: the analysis of discrete structural alternatives. *Administrative Science Quarterly*, 36, June, pp. 269-296.

²LAFONTAINE, F. & SHAW, K. L. (1999). Targeting managerial control: evidence from franchising. *International Society of New Institutional Economics – ISNIE, Third Annual Conference, Washington, D.C/USA.*

³AZEVEDO, P. F. & SILVA, V. L. S. (2001). Contractual mix analysis in the Brazilian franchising. *International Society of New Institutional Economics – ISNIE, Fifth Annual Conference, Berkeley/USA.*

⁴BARZEL, Y. (1982). Measurement cost and the organization of markets. *Journal of Law and Economics*, 25, April, pp. 27-48.

⁵SILVA, V. L. S. (1999). Food franchising and backward coordination. Dissertation, Federal University of São Carlos / Brazil.

⁶AZEVEDO, P. F. & SILVA, V. L. S. (1999). Food franchising and backward coordination: an empirical analysis on Brazilian firms. International Society of New Institutional Economics – ISNIE, Third Annual Conference, Washington, D.C./USA.

TOWARDS A PROPERTY RIGHTS RISK INDEX AND THE FUTURE POLITICAL RISK INSURANCE MARKET

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Public and private sector political risk insurance has been the traditional avenue for hedging against threats of expropriation, political violence, currency inconvertibility, war, revolution, and sabotage. Though it is easy to identify these risk factors once they happen, with the possible exception of currency inconvertibility, it seems doubtful that they will ever be directly quantified, and thus that market is likely to remain incomplete.

However, foreign investors presumably care about the likelihood of losing their property and care not about how they will lose it. Fortunately, each of these factors has one thing in common: they are associated with insecure property rights. By transforming property rights uncertainty into quantifiable risk, the new institutional economics (NIE), which tells us that property rights uncertainty is detrimental to economic performance, can be linked with continuous time finance, which tells us how to quantify and price any uncertainty. This can only be done if the proposed measure can be frequently updated. Since asset prices are the only economic data available at high frequency, the proposal here is to proxy the uncertainty of foreign investors' ownership claims in emerging economies using equity return data. If the proposed measure more or less reflects that risk and if a suitable option pricing methodology is specified, capital flows to emerging markets may stabilize, thereby improving economic performance in those countries.

I begin with the hypothesis that events signaling a change in property rights protection influence estimated country betas that measure the association between the returns on an emerging market equity index and the returns for a world market proxy. Testing this hypothesis requires creating a time series of country betas. Most financial studies treat betas as fixed parameters, though there is no reason to believe that they should be constant. To compute a time series of time-varying country betas, I apply the Flexible Least Squares (FLS) estimator to an international market model using daily equity return data from June 30, 1995 to March 7, 2001.

To test the hypothesis, I visually inspect the FLS estimates using statistical graphics techniques to investigate whether there are any systematic changes in the time series associated with any reported property rights violations within a particular country. I find that during the Asia Crisis between 1997 and 1998, a time when foreign minority shareholder rights were often violated by company managers, several country betas began to rise, and thereafter declined. In addition, all country beta time series exhibit strong dependence, which often takes more than three hundred observations (days) to die out. My interpretation of these findings is that country betas proxy for foreign investors' perceptions of property rights protection within a particular country, and that it typically takes about one year for a change in the surety of ownership claims work its way out of those perceptions.

CORPORATE GOVERNANCE IN RUSSIA: EVIDENCE FROM TOP EXECUTIVE TURNOVER

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Efficient corporate governance and the Russian economy have long been considered to be virtually incompatible. This viewpoint has been supported by numerous studies as well as by extensive anecdotal evidence. A substantial part of the available evidence, however, dates back to the early 1990s. Moreover, the focus of many related papers is on single mechanisms of corporate governance, i.e. internal control systems, the market for corporate control, bankruptcy mechanisms and the legal and regulatory framework. It has been shown that all of these mechanisms functioned imperfectly. But there remains a question of whether efficient corporate governance necessarily requires one or several well-developed principal mechanisms, or whether it can consist of a number of mechanisms, each playing no dominant role and remaining relatively underdeveloped, as seems to be the case in Russia.

A focus on turnover of chief executives rather than on particular corporate governance mechanisms produces a more systematic assessment of the efficiency of corporate governance. The underlying premise is that managers who pursue their own interest or do not make sufficient effort to do their job properly should be sacked. Their replacement can be effected by any of several mechanisms - e.g., shareholders can vote out poorly performing managers, bankruptcy procedure may result in changes in management (though also in ownership change), or takeovers may lead to substantial changes in both ownership and management. Stronger legal protection may also have an impact on executive turnover as it reinforces the other mechanisms through, for example, special provisions such as proxy voting by mail. In this framework a system of corporate governance may be considered as reasonably efficient if there is an inverse relationship between the probability of top management replacement and the quality of management. Though the quality of management is unobservable, it can be substituted in empirical studies with company performance assuming that the latter is an increasing function of managerial effort. Thus, the task is reduced to analysis of the relationship between managerial turnover and company performance.

The proposed paper aims at producing new evidence on Russian corporate governance by studying chief executive turnover in Russian companies. The study is based on a sample of 419 firms surveyed by the Bureau of Economic Analysis in May-June 2000. The principal means of analysis is probit regressions with the dependent variable indicating general manager replacement and independent variables indicating firm performance, ownership stakes of different groups of outside shareholders, company size and industry affiliation. The main finding is a negative relationship between the probability of general manager replacement and company performance, implying that replacement is more likely to occur in poorly performing companies. This result holds true for the two specified performance measures – labour productivity (measured as the ratio of sales to employment) and return on equity. This finding runs contrary to widely held beliefs that corporate governance is non-existent in Russia. The paper also provides evidence of the role of different groups of owners in corporate governance. In particular, it challenges the view that the state is a passive shareholder in Russian companies. Finally, the paper presents evidence of how managerial succession is influenced by the ownership structure of companies.

THE QUALITY OF LAWS AND LEGISLATIVE DECREES IN TERMS OF NORMATIVE TECHNIQUE: DIAGNOSIS AND POSSIBLE SOLUTIONS

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The study relates to congressional reform and looks at the quality of laws in Peru, from the standpoint of normative technique. A clear legal framework is an essential part of a sound institutional framework. However, the current “rules of the game” for legislators favor the approval of small, disperse and contradictory legislation from Congress. The lack of sufficient technical staff promotes the debate in Congress to be very political and insufficiently technically based. Also, the weakness of political parties favors an unstructured debate. As a result of these forces, the process to draft and approve legislation is very fragmented and disorganized. Laws which are approved often contradict other laws without resolving the conflict, or leave wide vacuums which can be interpreted in many different ways by judges and authorities according to their best interest. A norm with hierarchy of a law should reflect a political decision, which needs to be put into practice. This becomes complex, costly or even impossible if the norm is not clear, if it gets into contradictions with other norms, if regulation delays or if the minimum necessary conditions to put it into practice are non-existent, such as budgetary assignments.

The general objective of the project is to diagnose the normative quality of laws and legislative decrees¹, and propose modifications to the process of drafting legislation in Peru to improve its quality, while guaranteeing adequate control of Congress over the Executive. The importance of comparing these two mechanisms to approve norms of legal hierarchy is to conclude if law making through legislative decrees is inadequate, as argued by some of the main schools of thought in political science, or if it constitutes in practice an important channel to produce higher quality legislation in technically complex cases, and only the control of Congress in these cases should be improved.

The study aims to study and analyze a statistically representative sample of laws and legislative decrees approved since 1980, and analyze their quality in terms of normative technique and clarity. The hypothesis is that legislative decrees rank better than laws in this respect. The analysis will include quantitative indicators which proxy normative technique quality, and case studies in specific sectors. If the study supports the hypothesis, it will be clear that this mechanism is a valuable one, which needs to be improved to avoid its misuse by the Executive. One possibility that has been proposed by some legislators is that in certain matters, Congress could only give a yes or no vote to the bill presented by the Executive. This will allow for a more direct congressional control of the Executive measures, while favoring a more structured and organized process of law drafting. For the diagnosis, both quantitative and qualitative approaches will be combined.

The methodology to be followed will include the selection of a statistically representative sample of Laws and Legislative Decrees. Indicators, which reflect the permanency of the norms through time and their consistency, will be developed. For the qualitative analysis two study cases will be used: tax and labor sectors. In-depth interviews with experts will be conducted to get information on the perceptions about the quality of the norms. Following, a round table with specialists in each sector will discuss the conclusions gathered from the interviews.

¹Congress directly approves laws. Legislative Decrees are drafted and approved by the Executive, and require that Congress passes previously a law that empowers the Executive to legislate in a specific topic.

AGENTS WITH FINAL PRINCIPAL IN CHINA'S STATE-OWNED ENTERPRISES

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Most traditional principal-agent models are based on the hypothesis that the property right is defined very clear, and within the scope of the property right, the final principal, i.e., the owner would design the optimal contract under incomplete information which must balance incentives with insurance. But, one of the most important characteristics of China State-owned-enterprises (SOEs) is that there is no final principal in the actual governance structure. All of the government officials who determine the contracts with the managers of SOEs are agents or sub-agents themselves. Therefore, the whole governance structure of SOEs can be regarded as “agents without final principal”. If various tiers of agents are seeking for their private benefits without the constraints from the final principal, what is the final result?

We will show in this research project that, if the sub-principal who bargains with the agents is not the final principal, then there would be some efficiency loss in the process of contracting. Generally speaking, there exists some trade-off between two kinds of costs in contract process: the cost of imperfect information, and the cost of implementation. If the cost of implementation is lower, then under imperfect information the optimal incentive contract should typically lead to a non-linear contract without closed form (as shown by Grossman and Hart (1983)) which would involve all information characteristics of agent's behavior (Holmstrom (1979)). However, this theoretically optimal but very complicated compensation schemes involving all relevant information are rarely observed (Stiglitz (1991)), the universal form of the contract is “Linear contract” (or “linear bonus”). The rationale for the “linear contract” might be the implementation cost. Examples for “implementation costs” includes the resources required to communicate the contract to agents, to keep track of the required information, and to compute payments under the contract, and so on. If the implementation costs are very higher, then the firms are likely to choose the linear contracts which would be much more simpler, hence, with lower implementation costs. The case of “agents without final principal” would carry further distortions into the contracting process:

- (i) Since the government official who actually deal with the managers of SOWs are not the final principal, there is no strong incentives for them to bear the implementation costs, this would lead to some bias towards linear contracts which certainly incur the costs of incomplete information;
- (ii) Within the linear contract, the case of “agents without final principal” would introduce new inefficiency. When determining the incentive parameters such as “ α ” and “ x ” in the form like “bonus = $\alpha(y - x)$ ” (where “ y ” is the output, “ x ” is the production standard, and “ α ” is the bonus rate), the government official would favor some managers of SOEs with side contracts. Thus, there would exist some discrepancy between the optimal linear contract and observed forms of linear contracts.

This research project are planned to include following elements:

- (1). Estimate the efficiency loss caused by the case of “agents without final principal” in Chinese SOEs. This part of research is the main task of my project, and it is **empirically**.
- (2). **Theoretically**, to show what are final distortions caused by the case of “agents without final principal”;
- (3). To show how the gain could be produced by introducing more clear structure of property right by reducing the proportion of state equity in the share economy. We pay more attention to the effect of the establishment of stock markets in Shanghai and in Shenzhen on the improvement of firm performance. This is again **empirically**.

INDIA'S INFORMAL TRADE WITH BANGLADESH: A QUALITATIVE ASSESSMENT

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Nisha Taneja, ICRIER

The large and vibrant informal trade between India, and Bangladesh continues to thrive despite unilateral/regional/multilateral trade liberalisation in these two countries. This calls for an in-depth analysis of India's informal trade with Bangladesh. Using insights from the New Institutional Economics informal and formal institutions engaged in cross-border trade are contrasted to examine whether informal trading arrangements provide better institutional solutions. The analysis, carried out on the basis of an extensive survey conducted in India and Bangladesh reveals that informal traders in India and Bangladesh have developed efficient mechanisms for contract enforcement, information flows, risk sharing and risk mitigation. Further, informal traders prefer to trade through the informal channel because the transaction costs of trading in the informal channel are significantly lower than the formal channel implying that informal trade takes place due to the inefficient institutional set up in the formal channel. The principal policy implication from the study is that unless the transacting environment of formal traders improves, informal trade will continue to coexist with formal trade, even if free trade is established in the SAARC region.

INSTITUTIONAL REFORMS IN HEALTH SECTOR: STUDY OF PERSONNEL AND ORGANIZATIONAL ISSUES IN SELECT HEALTH SECTOR REFORM PROJECTS IN INDIA

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Introduction: Despite remarkable improvements in the provision of health services, public institutions of health care in India face many serious problems. The problems include among others, poor quality of care, absenteeism, and low morale among health staff, inflexible management systems, and many organizational and managerial shortcomings. These problems are seen as macro level civil services issues, which cannot be changed. The Health Sector Reform (HSR) projects initiated by various provincial governments in India, and funded by the World Bank, aims to encourage institutional level reforms. However, personnel issues are not only the most neglected part of the reforms but also the least researched area. There is a lack of detailed information about the incentive structures within which health personnel operate, way they are recruited, compensated, promoted and disciplined.

The Objective of the current study is, (a) to critically analyze the outstanding constraints in the existing personnel policies and practices, and explore possible institutional innovations; (b) to identify institutional incentives and organizational adaptations that may be required, to encourage organizational efficiency (e.g. Allowing private practice with in public hospital premises, etc.). The study would analyze the implications of such adaptations.

Methodology: Broadly six personnel policy issues were identified for the study. They are, Staffing, Performance Appraisal, Training and Career Development, Pay and incentive mechanism, Labor relations, and Working conditions. Impact of reforms and decentralization was also included as additional variables.

Data Collection: Fieldwork and data collection was carried out, personally, in two different states (provinces) where HSR projects have been underway. Secondary data on the organizational set up of the health department; size and composition of the health staff; hierarchies, salary grades, personnel policies, and other relevant details were collated from the state head quarter (ministry). A cross section of officials from the ministry and health department were interviewed, using interview schedule. A questionnaire-based survey (mailed) was carried out among all the district and regional level officials, principals and superintendents of medical colleges and teaching hospitals respectively. Representatives of the doctor's union, staff and trainees in a training institution, were also interviewed. One district in each state was chosen for the rigorous fieldwork. The researcher personally visited large numbers of rural health centers in the district. Health staff, patients, and local leaders were interviewed. The data is being analyzed for preparing the final report.

Preliminary Findings: While there is a great deal of institutional constraints, yet large number of medical staff are in favor of radical systemic changes, i.e. the way they are managed, hired, remunerated, etc. Innovative ideas on many issues were mooted, such as, public hospital facilities to be used by private providers, hiring doctors on fixed term contracts and confirming high performers as government staff, health center based quality rating and linking the ratings with performance appraisal, rewarding better performing health centers, institutionalizing patient complaint system, decentralizing the administrative decisions on private wards and user fee, rationalization of hierarchies, gender sensitivity in postings, legalizing private practice, providing more intangible incentives, etc.

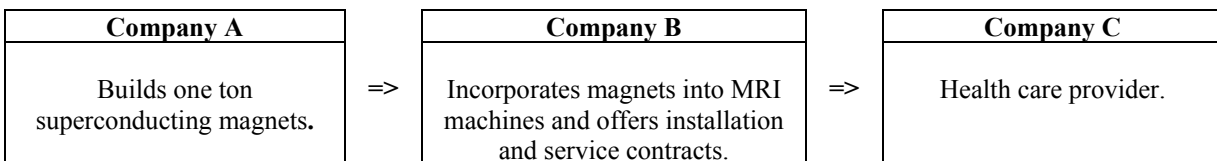
It would be extremely worthwhile, and I would be privileged, to seek feedback from such learned scholars, on the final shape of this project report, during the workshop.

PEOPLE AND PERFORMANCE: A LONGITUDINAL STUDY OF HOW AND WHY PEOPLE MANAGEMENT PRACTICES IMPROVE BUSINESS PERFORMANCE

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This major research project investigates how and why people management practices affect organisational performance and is based on research in 12 case studies conducted over a two-year period. The project employs a broad definition of people management to include aspects of job design, team-working and involvement together with Human Resources policies and practices. The Chartered Institute for Personnel and Development (CIPD) is sponsoring the research as part of a flagship investigation into the relationship between people management and business performance. Data collection within each case will take place periodically over the two-year research timetable. The first round of data collection in the participating companies is nearly complete.

For the purposes of the Ronald Coase Institute's Workshop in Institutional Analysis, I will analyze data collected from three of the cases during the first stage of the People and Performance project. This analysis will undoubtedly provide interesting results for the consideration of workshop participants, and it will generate suggestions that will inform the second round of data collection. The three organizations considered for the workshop are engaged in a supply chain relationship that is represented by the following diagram:



Company A manufactures highly complex and expensive superconducting magnets for magnetic resonance imaging (MRI) devices sold by Company B. This process necessitates an investment in dedicated assets by Company A. Company B sells and services MRI devices, as well as a wide range of other medical equipment. These MRI machines exhibit both physical and site specificity once they are installed in Company C. This structure has caused a range of effects on the governance structure of the organizations and on the strategies for customer and labor contracting. Space prohibits a detailed account of the evidence emerging from the research, but I offer three examples in closing:

- (1) Company B has purchased a 51% stake in Company A while operating a strictly hands-off policy towards Company A's operations. This policy is almost certainly necessary because the remainder of the supplier's business (60%) would certainly go elsewhere if they believed the majority owner were given preferential treatment.
- (2) The magnets have grown increasingly specific over the years. This appears to be the result of a concerted effort by Company A and Company B to create a mutually dependent supply chain relationship.
- (3) Company B places a high value on the relationships with buyers in Company C because of firm specific knowledge and network effects. This has implications for the recruitment and retention strategies of Company B.

STRONG LEGACIES AND WEAK MARKET: RUSSIAN INSTITUTIONS OF HIGHER EDUCATION AFTER THE AUGUST OF 1998

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General

The paper examines factors and tendencies affecting the performance of public and private institutions of higher education (IHE) in Russia. Data come from an on-going longitudinal study of the period from August 1998 to August 2003. The idea is to investigate how organizational boundaries and marketing strategy of the government during this period of transformation affect organizational performance of the system of higher education in Russia. The degree of dependence of Russian higher education on Western support will also be discussed. The intellectual basis for a "shock therapy" and current governmental economic strategy, which lies in neoclassical economics and in sociological modernization theory, will be debated from the point of view of new institutionalist economics.

Why is it important to study the theme?

The nature, extent and tendencies of organizational change in Russian system of higher learning are important to study for several reasons. First, change in IHE's behavior in response to macroeconomic policy represents important and almost untested thesis of the dominant model of market reforms supported by national government and foreign financial institutions. Second, the discussion of changes in IHE can provide scholars and policy makers insights into mechanisms and consequences of organizational change: higher education system has an immediate price but brings no immediate profit. Third, the IHE is the first element of interaction system among science, laboratory and industry, that is crucial for a knowledge based economy. Fourth, system of higher learning is a sphere where co-exist public and private institutions; that is a good opportunity for comparative study.

Theoretical Assumptions

The major premises for governmental economic strategy in Russia based on understanding that if the appropriate incentives are established, economic actors will respond rationally by changing behavior and transforming organizations in ways consistent with a neoclassical market orientation. Thus, the objectives of reforms and transformations are to create such incentives; the tools suppose to be liberalizing prices, privatizing state-owned enterprises, and hardening budget constraints.

In contrast, the paper argues that the consequences of organizational change may be less uniform than expected by a neoclassical economics view. When it comes to empirical analysis of the IHE, most obvious become the fact that market is a fragile, fixed institution, highly embedded in Russia's historical circumstances. Human custom, habits and ways, social networks, post-communist communism, structural inertia organize the dominant direction of change not toward advanced capitalism based on marked forces but rather backward, as once suggested in literature, to more primitive "merchant capitalism" (Burowoy, M., and P.Krotov "The Soviet Transition from Socialism to Capitalism: Worker Control and Economic Bargaining in the Wood Industry", *American Sociological Review* 57: 16-38).

The paper argues that had the Government consulted the New Institutional Economics, a more cautious and selective program of reforms in higher education and economic strategy during transformations in 1998-2001 would have resulted.

**RUSSIA: WHETHER DEPRIVATIZATION IS INEVITABLE?
(POWER-PROPERTY PHENOMENON AS A PATH DEPENDENCY PROBLEM)**

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In the represented analysis we have made an attempt to answer the question whether privatization facilitated market development in Russia or the contrary takes place? We show that specific form of gap between *de jure* and *de facto* property rights underlies privatization inefficiency.

The reforms are carried out but the economy still stays in crisis. The president V. Putin regards attempt of power centralization as a way to treat the problem. Whether centralization of government decision making is a step to the free-market or it is backward movement to command economy?

The undertaken analysis shows that the decision is predetermined by a phenomenon of path dependency (D. North), following to traditions of oriental despotism. For this purpose we investigate *power - property phenomenon*, when property is determined by power, i.e. it is determined by individual's position in state hierarchy (K-A. Wittfogel, L. Vasiliev, R. Nureev). It is typical that the power - property phenomenon is so far pronounced in activity of the majority of the today's Russian integrated business groups. Using the survey conducted in 1998-2000 we identify the actual ownership structure of privatized companies. The undertaken analysis allows us to find out organizational path dependency. On the basis of comparative institutional analysis we draw to a conclusion that there exists special hybrid form of the governance structure (O. Williamson), connected with oriental despotism traditions.

From the viewpoint of oriental despotism system, constructed in the USSR, the assignation of property rights *de jure* to the enterprises and by actual weakening of the central authority meant despotism collapse. However despotism decline does not lead to the efficiency of private property institution. Since it turned out that dominant owners are not individual owners who have traditions of this property usage (unity of the rights, liabilities and responsibility), but former *nomenklatura* and regional authorities.

The state might facilitate the development of institution of private property, but its main function should be the protection of property rights. However, what function of the state prevails: the "protective state" function or the "productive state" one (J. Buchanan). We try to clarify the nature of the state during the reforms then the institutions of oriental despotism are being replaced by evolving market institutions.

If we come back to strengthening of oriental despotism institutions then deprivatization will be inevitable. Whereas, deprivatization won't take place, if we create preconditions of market development and effectively working private property rights. The kind of private property when owner possesses residual rights (A Alchian, H. Demsetz). And a) the state bears costs of these rights protection (as in the developed market economy) b) property right can be exchanged without high transaction costs, providing effective allocation and deciding externality problem c) in the long-run period the property is protected from expropriation.

Provided that the oriental cycle will again go on to the raising stage and there will be strengthening of power – property and spontaneous renationalization, then crash of market reforms and, as a result, decline of economic system in Russia are inevitable. Only effective correlation of *de jure* and *de facto* property rights among the private owners supported by enforcement mechanisms and guarantees of long-term state's protection creates the preconditions of market economy development in Russia.

FIVE TASKS OF THE NIE HISTORIAN

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Present research concentrates on developing a conceptual template for New Institutional Economic (NIE) History, which sets forth the five tasks of the NIE historian, namely to explain the origins, persistence, form, mechanics and decline of a particular institution. This framework can act as a starting-point for historical work as well as empirical studies.

For the origins of an institution, we ask what were the circumstances and forces that led to its emergence. To skip this step would be to suspend the institution in time and ignore the processes that led to its rise; there is no guarantee that a particular structure will emerge automatically. Institutional origins can be established through a historical-sequential approach, whereby the NIE historian traces the events and forces that led to the rise of the institution. However, merely accounting for the origin of an institution is inadequate, since historical structures, once developed, might not endure over time. So the second task is to explain institutional persistence. It is imperative that issues of origins are analyzed separately from those of persistence since the reasons for emergence of an institution are not necessarily the same ones for its endurance. This is where the skills of the economist take centerstage: a structural-functional approach, which uses partial equilibrium models that balance opposing forces, is needed. Should one collection of forces become dominant, a change in that direction will be observed. The third and fourth tasks of the NIE historian are to account for form and mechanics. For the institution's form, the issue is why it took the shape that it did. This is related to its origins: why did an institution with such characteristics emerge? As for the mechanics of the institution, how did each of its characteristics hang with the rest to affect economic decision-making? The form and the mechanics of an institution are also linked to its persistence: endurance is predicated upon an unchanging form and the effectiveness of institutional mechanics can explain why agents had little incentive to deviate from the equilibrium, hence sustaining the whole structure. Finally, the NIE historian has to account for the decline of the institution. Like origins, a historical-sequential explanation accounting for events and actors that led to the demise of the institution is needed. Studying the demise allows for hypothesis testing: If the institution had the hypothesized functions, then its cessation would mean the end of such functions and related economic conditions. The absence of such economic conditions will then falsify the hypotheses.

The framework is applied to the truck system in 19th-century Britain. Truck was the payment of wage advances in expensive perishables from the company store and affected only those who sought advances ahead of payday. These characteristics constitute the institutional form that arose as a result of loopholes in the Act of 1831, which targeted wages in kind but left ambiguous the issue of advances. Truck is hypothesized as a tacit agreement: it was system of negative incentives for the firm and an implicit contract for the worker. It endured for decades because neither party found it gainful not to enter into its agreement, i.e. its functions established the equilibrium that was truck. The mechanics of these functions, and the processes they activate, are modeled algebraically; but the intuition is as follows. For the firm, truck changed the linear piece rate into a regressive wage-output relationship that penalized only the less productive workers, who in producing less, earned less and required advances more often. For the less productive worker who took truck and thereafter got advances in credit against future labor during downturns, the institution was an implicit contract under which he passed some income risk onto the firm. Looking at the demise of truck at the end of the century yields some falsification and testing conditions. If truck were indeed an incentive system, its end would mean the use of other forms of incentives; was that the case? Similarly, if truck acted as insurance for some workers, did they experience greater volatility in earnings with institutional decline?

THE RELATIONSHIP BETWEEN FARM SIZE AND PRODUCTIVITY IN BANGLADESH AGRICULTURE: THE ROLE OF TRANSACTION COSTS IN RURAL LABOUR MARKETS

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One major emphasis in the recent literature on the relationship between farm size and productivity is that the small farms are not as efficient as the large farms in agriculturally developed regions though this may not be the case in agriculturally backward regions. While the inverse relationship is generally explained by lower opportunity costs of labour for the small farms, recent emphasis on positive relationship is explained by alluding to various imperfections in the capital market.

In labour- based approach the inverse relationship is explained on two strong, if not unrealistic, assumptions: (a) the farmers – large and small - are passive in responding to monitoring costs of hiring large doses of labour and (b) the labour market institutions are the same and static in all regions (“backward” and “forward” or “stagnating” and “growing”). Often the implicit institutional assumption is that of the existence of time-based spot wage labour market. Various forms of complex labour contracts that are in existence are generally ignored. It goes without saying that the large farms face serious monitoring costs and associated management problems in applying increasing amount of labour along with higher doses of capital. But at the same time small farms also employ hired labour and therefore they also face supervision problems. Thus the agents, large or small farmers, will make attempts to reduce these costs. One way this can be done is through changing the nature of labour contracts if market for supervisors is non-existent. This is the basis of our argument and we will focus on the labour market institutions for testing the size-productivity relationship. We are highlight the institutional dimension in the labour market that may well explain the inverse relationship in one region and positive relationship in another *without bringing in the capital market imperfection argument.*

The relationship between farm size and productivity is tested for Bangladesh agriculture with data gathered during 1997-98 from two sites comprising of two clusters of villages: Madhupur (the high growth area) and Chandina (the low growth area). We have found that the large farms are more efficient in high-growth area and the small farms are more efficient in the low-growth area. We have explained this by highlighting the role played by the labour market institutions in reducing transaction costs of hiring labour in the two sites. Transaction costs, amongst others, include cost of searching and of monitoring labour. These costs are minimised more in Madhupur (the high growth area) than in Chandina (the low growth area) and more so by the large farms in Madhupur and the small farms in Chandina. In both regions the labour market is similar in the sense that a group leader, known as a *Sardar*, organises the labourers in a group. The farmers contact the *Sardar* for hiring labourers, not individual labourers. This reduces search costs in both regions. But in Madhupur, labourers are mainly hired on a task-specific contract basis whereas in Chandina they are hired on a usual wage-contract basis. This makes supervision costs in Madhupur substantially low in comparison to those in Chandina. Thus the institutional innovation in the labour market in Madhupur patches up for a missing market for supervision and makes the old argument of lower opportunity costs of family labour almost redundant.

THE CO-EVOLUTION OF INSTITUTIONS, ORGANIZATIONS, AND IDEOLOGY: THE LONGLAKE EXPERIENCE OF PROPERTY RIGHTS TRANSFORMATION

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This study is a part of a big research project that examines the rise of secure property rights in China's inland fishery. China has become the largest producer of freshwater fisheries since the end of 1980s. In the region where I conducted extensive fieldwork, fishery has been transformed from subsistence-oriented sideline production to a booming market-oriented industry and become the backbone of the local economy. Prior to economic reforms, fishing rights were largely open. How secure property rights rise and get institutionalized in the two decades of economic reforms is the major concern of the research project.

As a case in point, I will present an empirical study investigating the transformation of property rights over fishery resources in Longlake, Hubei, China, a gradual and troublesome transition from a common property regime to a state property regime, between the late 1970s and the late 1980s. In the pre-reform era, fishery resources in Longlake were practically open, though legal rights were assigned to the state. Yet, "the tragedy of commons" did not occur until economic reforms ushered in fish markets in the late 1970s. In the following decade, the tragedy unfolded and fishery resources depleted. Fortunately, fisheries were restored at the end of the 1980s when a secure regime of state property rights was firmly established. Drawing upon the new institutional economics, this study is to shed light on this process of property rights transformation.

The analysis stresses two distinctions, one between legal and economic rights, the other between formal and informal property rules. What is concerned here is the change of economic rights, though legal rights have remained the same. Furthermore, economic rights are defined by both formal and informal rules. Thus, the rise of secure property rights requires the simultaneous development of formal as well as informal rules of property rights. As expected, the change of property rights creates conflicts among economic actors, which in this case involves a state owned fishing farm and private fishermen. This study demonstrates that, consistent with the economic theory of property rights change (e.g., Demsetz), the opening of markets sparks the change of property rights. However, its pace and directions are deeply influenced by interactions between economic actors and between them and existing institutional rules in reconciling distributional as well as ideological conflicts, lending support to the distributional school (e.g., Libecap). Most importantly, this study is able to identify different mechanisms to account for the change of formal and informal rights. Specifically, it shows that while formal rules of property rights are largely susceptible to human design, informal rules defy intentional social engineering. Moreover, the change of property rights is further complicated by the fact that the enforcement of formal property rights heavily depends on its compatibility with informal rules, which are culturally embedded.

HOW BRAZIL FELL BEHIND: A NEOINSTITUTIONAL ANALYSIS

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The period in which Brazil fell behind the U.S. was the nineteenth century. Brazil started and finished the century with an income per capita of roughly seven hundred dollars. In the same period, the U.S. per capita income jumped from eight hundred to almost five thousand dollars.

The research adopts the theoretical approach which argues that government as a monopoly power can be used to redistribute wealth to rent-seeking groups. However, when this monopoly power is contested by alternative powers such as the Judiciary, the Legislative, states and towns, or, in the past, even by the church, it means an increase in transaction costs that potential rent-seekers have to incur. Especially powerful to the analysis of Brazil was the contribution related to principal-agent problems. That is, historical examples show that economic growth was triggered when the regulatory apparatus fell apart because the government failed to deal with the self-interest of its enforcers. The Brazilian regulatory apparatus did not fall apart because the crown set a proper incentive structure to deal with its enforcers' self-interest. Unlike the cases of England and the U.S., the Brazilian crown paid directly the salaries of its enforcers at all three levels of government. In addition, the crown adopted the mechanism of geographical rotation inside the province for enforcers at the town level, and inside the country for enforcers at the provincial level. That is, they were not home-grown bureaucrats or had residence on their jurisdictions. Also, another resource was to appoint the enforcers for a short term position in the same town/province. This complicated economic relationship between enforcers and locals and made opportunistic behavior more difficult. Finally, the crown provided some kind of "social/bureaucratic" mobility for its enforcers that could expect to reach a higher bureaucratic position. That is, the principal-agents problem was controlled and the regulations enforced, which consequently curbed economic growth.

CHOICE OF REFORM SPEED AND THE ECONOMIC GROWTH IN FORMERLY PLANNED ECONOMY: THEORETICAL AND EMPIRICAL PERSPECTIVE

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In the existing literature investigating the pattern of economic growth or recession in the formerly planned economies, most economists believe that economic transition from centrally planned system toward market-oriented one is in itself a slow process of institutional development, and should be best characterized by experimental and Bayesian process of institutional evolution(e.g., Murrell, 1990; Naughton, 1995). According to this view, the economic recession in Russia, for example, is more of a result of too rapid implementation of reform programs.

Another group of economists in this area typically look at both policies/strategy of transition and starting points at the beginning of transition to explain the divergent performance of economies in transition. For example, one viewpoint states that faster reform policy will lead to better economic outcomes, but because of unfavorable starting points in some transitional economies, the implementation of rapid economic reform programs has resulted in negative economic outcomes (e.g., Sachs and Woo, 1997). Countries like China had favorable starting positioned and would have had even better economic performance had they carried out reform programs more rapidly.

Then question arises as to which factor is most important to explain the variation in economic outcomes in transitional economies, reform speed or starting points? To some economists, this seems to be simply an econometric problem to estimate the relative magnitudes of each other(e.g., De Melo, Martha and Gelb, 1996). The potential problem of their work, however, is that they simply assume that reform speed is exogenously chosen by reformers. In this research we will try to provide a clear framework for the choice of “reform speed”, and will construct a simple game-theoretical model which is capable of providing an addition to the usual argument concerning the divergent performance of reforming countries. The model of ours will predict that reform speed is endogenously determined and is itself a function of starting positions. Finally, we will use this theoretical framework as a guide to an empirical re-examination of the reform speed, starting position and economic growth.

Our results are that the speed of reform observed in many transitional economies will be a function of the position of these countries at the beginning of the reforms. Specifically, starting positions which reduce the economic displacement resulting from market reforms will allow policy makers to implement faster reform programs, and the reforms will also be faster if the initial incumbent policy makers have reformist preferences. Our econometric estimation based on 28 transitional economies supports the idea that reform speed is endogenous and that economies with reformist governments and with favorable starting points implemented reforms more rapidly.

**THE IMPLICATIONS OF TRANSFERABILITY FOR RESOURCE ALLOCATION:
THE CASE OF RURAL LAND IN CHINA**

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In his 1959 article on the "Federal Communications Commission", Coase forcefully argued that clear delimitation of rights and low enough transaction costs are a prerequisite to market transactions. In his most famous paper on social cost (1960), Coase concluded that if property rights are clearly delineated and if all costs of transactions are zero, then resource use will be the same regardless of who owns the property rights. That is to say, resource use will always be constrained optimally if and only if property rights are clearly delineated and transacted. A similar argument can be found in Steven N. S. Cheung 's paper on "A Theory of Price of Control" (1974). In that paper, Cheung argued that "...The value of a good will decline either if its most valuable use is restricted, or if its transferability, in one way or another, is constrained by law..." What Coase and Cheung state here provides us a key to interpreting the process of resource allocation. In my view, market transaction (or transferability) of resource is a prerequisite to its pricing and efficient allocation. The case of China provides some important implications of transferability for rural land use. Since the responsibility system was introduced into the countryside in 1980, China had made great progress in agriculture. But a curious observation is the success that was made with the nontransferability of rural land. By maintaining collective ownership rights over rural land, the responsibility system is a method of allowing the State to assign private property rights to land use without relinquishing collective ownership rights. In principle, the responsibility system involves a contract between a household or a team and the government, under which the farmer assumes responsibility in production, pay dues to the government, and keeps the residual. So the household owns the right to use land and the right to enjoy income generated from usage, but has no right to freely transfer land. However, rural land in the country is allocated and cultivated efficiently as a result of huge excessive labor in spite of no market and no price in land. That is, each household owns and cultivates some little plots of land, so crop output per acre is very high. Meanwhile, per capita output of crop is very low. When there is immigration of population from one place to another, the balance between labor and land among households will be broken. When more farmers move into towns, it is indispensable for rural land to transact and reallocate. Because the transaction of rural land is not permitted by the State, some other arrangements are introduced to provide a solution to the imbalance between labor and land. If rural land can be freely transferred, transaction cost will be reduced greatly, and the well- being of farmers will improve greatly. The case of rural land in China provides a sound evidence for the significance of transferability.

**MARKET AUGMENTING INSTITUTIONS: SLOW MOVING INSTITUTIONAL CHANGE
SUPPORTING THE PRODUCTION AND DISTRIBUTION OF FOOD
IN DEVELOPING ECONOMIES**

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Developing countries are strongly dependent on the production of food, fiber and energy. Food chains show different architectures of vertical and horizontal coordination between and within countries. It is expected that the players in a given food system will shape the contracts linking the levels of the chain, based on transaction cost economizing strategies, bounded by institutional factors.

The connection between institutional environment (institutions) and institutional arrangement (organizations) has been considered in the literature of chain coordination, with emphasis on the second. Since the institutional arrangement is important to understand the functioning of food production and distribution chains, this study aims to explore the institutional evolution, its dynamics and barriers for its improvement, especially focused in developing economies.

The concept of market augmenting institutions has been suggested by Mancur Olson and is the departure point for this research. The question is why we find failures in institutions in developing countries, why the failures persist through time and what can be done to reshape the institutional environment, aiming to augment the markets and to reduce transaction costs.

Since the question just addressed is very broad, the proposal suggests the focus on two specific objectives. The first is the food safety standards, and the second is the definition of property rights, especially related to water and land use. All the two aspects are of enormous importance for developing countries and are complex enough to suggest the development of different and independent studies. The research strategy is to shape a first approach opening room for specific studies in the future.

Food Safety: A common problem in food markets is the institutional setting that shape private strategies to guarantee acceptable levels of risk in food markets. Recent problems in Europe are providing incentives for countries to redesign institutions able to deal with the definition of standards and its enforcement. Impacts on the private sector are visible, ranging from new governance forms, new profiles of collaboration among companies and the reform of governmental institutions.

Resources: The lack of capacity to supply and to enforce property rights is a very consistent problem found in developing countries. The magnification of transaction costs is the expected result. The impacts can be seen in different aspects of the functioning of food systems, from the court inefficiencies in solving disputes, to problems related to land tenure (incentives for specific investments) and finally to problems of use of natural resources, especially water.

Two important questions will be explored related to property rights. The first is the study of regularities found in dispute resolution, affecting the efficiency of food systems. The second is the inter-temporal aspect, related to the incentives to develop systems based on the sustainability of natural resources. This study suggests the focus on the difficulty to define inter-temporal (inter generations) property rights.