Institutional determinism of the execution of transactions within the company

Abstract

Modern companies, operating in a dynamically changing environment, are subject to the permanent determinism of the institution. On the other hand, companies are more and more often perceived as complex networks of interpersonal relations in often dispersed organizational structures. Relationships seem to play the role of a link between human activities. The latter, being dependent on the level of his/her opportunism, limited rationality, uncertainty and defined costs of transaction execution within the company, take actions consistent with the company’s goal. Man-made activities seem to be more and more often characterised by market transactions concluded within the frames of a company. The whole mechanism of company functioning cohabits under the influence of institutional determinism.

Such a context of social and economic reality observed within the frame of the company has become a contribution to the emergence of the question which inspires the author’s scientific work within the scope of the new institutional economics. What are the reasons for the existence of various forms of transaction organization and ways of their implementation within the company? The following article is an attempt to answer such a question in the context of the theory of institutions. The presented considerations, through the theoretical meanders of neo-institutionalism, ultimately lead to the localization of institutional determinism, which shapes the way transactions are carried out within the company.

Keywords: institutions, internal organization, organizational behaviour, transactions, business economics, firms

JEL Classification Codes: D230, L220, M210
Introduction

Companies and transactions taking place within their frames seem to be key institutions for domestic economies. What happens within a company is nowadays one of the most important economic scenes of human activity. The main actors on this business stage are certainly people who, by establishing a complex network of interpersonal relations and carrying out specific activities in line with the logic of market transactions, remain in the company’s hands.

Considerations on the institutional determinism of transaction execution within the company’s boundaries have their origins mainly in a critical analysis of the literature of the new institutional economics and the observation of socio-economic phenomena taking place in organizations. Studies on the issues of institutions, transaction costs, contracting processes and property rights have led to the creation of a key research question that guides the author’s scientific work. What are the reasons for the existence of various forms of transaction organization and ways of their implementation within the company? In this article, the author set himself the goal of answering this question. The search for this answer was carried out in the context of one of the most important issues of the new institutional economics, which is the theory of institutions. For this purpose, a specific methodology for discussing institutional issues was proposed from the perspective of the institutional economic order, the institutional sphere and the acting man.

The first part of the article presents the most important issues describing the theory of institutions in the context of the concept of the institutional sphere. It is a very general description of the institution theory, which is the main theoretical background for further considerations. The next part of the paper presents the issues of institutions in the context of economic order within the boundaries of the company. This is a key section of the article, which contains a justification for the hypotheses and the main thesis. The first hypothesis concerns the essence of the company as seen from the perspective of the new institutional economics. The author claims that the company should be understood as a complex network of relations and relationships between people who, with the use of appropriate competences, carry out activities jointly aimed at the implementation of strategic objectives. A man acting within the scope of a company has the characteristics of a contracting man and his actions are part of the transaction mechanism.

The second hypothesis presents the concept of the so-called institution transfer system. It is perceived as a mechanism generating a specific power of institutional gravity, which allows for absorbing institutions into transactional processes within the frames of the company. This mechanism is a resultant of the contracting person’s attitude and is largely dependent on the level of opportunism, limited rationality, uncertainty and defined costs of transaction execution within the company.

The whole discussion leads to the discussion of the thesis, in which the author claims that the man acting within the frames of the company functions in a specific institutional sphere. The
resulting institutional forces on the one hand limit him/her, and on the other hand give him/her the possibility of acting or facilitating them. The institutional sphere should be treated as a reality described by institutions in order to get to know the social and economic phenomena taking place within the frames of the company and to get to know the man who works there.

1. Dynamic institutional sphere

Contemporary and modern economics should examine the social and economic activity of man as he is, acting under the influence of limiting and enabling mechanisms that constitute his real living space. The author coined that statement on the basis of R. Coase’s statement [Coase, 1984, p. 231], who very accurately defined the essence of the new institutional economics current. This social and economic activity is understood by the author as a specific social fact in the meaning of E. Durkheim, who claims that these are “ways of thinking, acting and feeling, external to the individual and thanks to their existence to the power of coercion by which they are imposed on the individual” [Durkheim, 2000, p. 30]. It should be clearly stated here that the author’s scientific work is determined by such an approach to economics, which is reflected in this article. In this context, the deliberations on the process of transaction execution within the boundaries of the company are theoretically and practically grounded in the issues of the theory of the institution being the essence of the new institutional economics. Creating the foundations for further discussion in this section there will be presented a short history of the concept of institution, the dynamics of institutions and the most important methodological typologies of institutions themselves, which are reflected in the modern economy and in the practice of enterprise management.

1.1. Institutions of the modern economics

Presenting the contemporary image of an institution as it is understood by the new institutional economics, it is impossible not to reach for the sources of its original name and definition. It is important to talk consciously about the original definition of institutions and not about their first appearance in the socio-economic reality. Today, there is no doubt that institutions have always existed. At some point in the history of economics, however, they were brought to the attention of the public and a proper discussion concerning this subject was started.

For the first time determinants influencing one or another’s behaviour in society have been identified as well-established patterns of behaviour and relationships that are accepted by society. The creator of such a claim was T. Veblen, who treated these institutions as a kind of necessary custom commonly accepted by people in a given place and time [Veblen, 2009, p. 101]. He claims that “social institutions are, in their essence, dominant ways of thinking that take into account particular social conditions, particular functions of individuals and communities. […] Social institutions – that is, thought habits or ways of perceiving phenomena
– which govern human life, come from the past. They are the products of the past, adapted to the conditions of the time, so they are never completely in line with the requirements of the present” [Veblen, 1971, p. 171]. This statement shows clearly that institutions are very much rooted in human psychology and their research (on institutions) should boil down to the analysis of tastes, customs and habits that have arisen in the past. Therefore, the key to economics is to learn about socio-economic phenomena, rather than treating them as exogenous factors pulled outside the brackets of economic models and concepts.

A specific development of the primordial thought of T. Veblen was the emergence of the concept of working arrangements in the economy (i.e. family, corporation, trade union, association or state), which, together with the principles determining their functioning, was called institutions [Commons, 2009, p. 146]. J.R. Commons writes that institutions should be defined as “collective action to control individual actions”. Collective action covers everything from disorganized customs to many organized and well-functioning organizations such as family, business, […] trade unions, federal reserve system, […] and the State […]. Collective action is even more universal in a disorganized form of custom than in an organized form of enterprise. However, even a well-functioning organization is also a custom [Commons, 1934, pp. 69–70]. In this conceptual version of the institution, the importance of active systems operating in the social and economic space, being the superior value over the individual activity of an individual human being, has been underlined. Institutions are, therefore, assigned to having their own source in society, which in turn shapes or even limits the activity of a human being as an individual in a real way.

While presenting the history of the development of the importance of institutions in economics, it is impossible not to mention the work of R.H. Coase. After all, it is he who is considered to be the precursor of the new institutional economics. In his deliberations, he raised issues concerning the functioning of enterprises and put forward a thesis on the existence of a causal factor under the influence of which the institution of the company is created. This factor is transaction costs [Coase, 1937 pp. 386–405]. The institutional structure of production thus emerged, which gained great importance for the entire economic system [Coase, 2008, pp. 31–39]. D.C. North made an equally important contribution to the theory of institutions, which referred directly to the structure of stimuli determining the manner of human activity, which (i.e. institutions) took the form of specific rules of the game in the social and economic sphere [North, 1990, p. 3]. In this context, institutions are “human-induced constraints which shape political, economic and social interactions. They include both informal restrictions – sanctions, taboos, customs, traditions or rules of conduct – formal rules – constitutions, law, property rights” [North, 1991, p. 97], as well as “ways of enforcing them. Together, they define the stimulus structure of societies and, in particular, of economies” [North, 1994, p. 360]. At this stage of the development of the new institutional economics, institutions become rules of the game – formal rules and informal rules – which together define how to play. Organizations, on the other hand, are players in the game who aim at common goals together [North, 2008, p. 22].
Quite a significant contribution from D.C. North in the concept of institutions is to define them as a determining factor in the way a group of people works in an organization. G.M. Hodgson also took a similar approach to the issue of institutions, stating that the institution is more a permanent system of establishing and building social rules than just regulations as such. It seems that this concept of the institutions is somewhat broader and includes a kind of mechanism. It allows within the meaning limits of institutions for accommodating the informal foundations of any order and permanent behaviour of people in various types of organizations [Hodgson, 2006, p. 13]. He writes that having habits is a psychological mechanism that forms the basis for more regular behaviour. In order for a habit to become the rule, it must have a coherent normative content, be potentially codifiable and dominate in a community [Hodgson, 2006, p. 6].

The way of understanding, defining and perceiving institutions is still subject to certain methodological dynamics, which can be seen in the works of contemporary economists. Therefore, it is worth mentioning a few of them in a very general way also in this place. G.B. Kleiner notes in his reflections on the evolution of the institutional system that institutions are “relatively resistant to changes in the behaviour or interests of individual entities and their groups, as well as to prolonged activity over a significant period of time, formal and informal norms or systems of norms regulating decision making, activity and interaction of socio-economic entities (natural and legal persons, organizations) and their groups” [Kleiner, 2004, p. 19]. W. Stankiewicz clearly refers to institutions as the processes of economic exchange. He states that institutions are “patterns of behaviour established in the society, and an economic institution – a set of rules shaping cooperation in management processes, especially in broadly understood exchange” [Stankiewicz, 2012, p. 50].

Institutions are beginning to be perceived in economics as principles of solving problems resulting from mutual economic relations. On the other hand, the new institutional economics, through the analysis of these institutions, tries to modify them or introduce new rules to obtain a better final result [Ollila, 2009, p. 12]. In this current, there is another way of understanding institutions. In economics there is a claim that institutions have a double character, natural and artificial. On the one hand, institutions clearly organize their own rules in society as a natural social system. On the other hand, institutions are the result of a deliberate reflection of the social man in the context of specific regulations and are the product of man [Kirdina and Sandstrom, 2010, p. 4].

It should be stressed clearly, following S. Rudolf, that “it is difficult to overestimate the importance of institutions for the functioning of every economic system, including the broadly understood economic development. There is no doubt that this development is conditioned to a large extent by the quality of the institutional system existing in a given country. Appropriate institutions can be a guarantee of continuity of economic processes, ensure protection of property rights, stable fiscal and monetary policy, etc. They can also be a guarantee of the continuity of economic processes. Institutions can also support the achievement of social goals by creating incentives to their implementation. All this makes it possible to formulate
the thesis that institutions are an important premise for the differentiation of economic growth rates in individual countries" [Rudolf, 2010, p. 11]. In the above statement, in the context of these considerations, it is worth emphasizing the reference to economic processes. It should be considered, however, whether some kind of system of transfer of institutions to the interior of the organization is not equally important. The term 'institution transfer system' should be understood as a mechanism generating a specific power of institutional gravity, which allows for absorbing institutions into transactional processes within the boundaries of the company.

Therefore, institutions create a kind of institutional sphere, which is a systemic determinant of human activity. On the one hand, this activity is limited by the forces of institutional norms, on the other hand, these institutional forces generate or facilitate human action. Narrowing down the meaning of the notion of institution to areas on the borderline of rules and norms, or even social and psychological aspects, may lead to a limited treatment of the institutional sphere. The institutional sphere should be perceived in an institutionally objective way. This means that it should be identified with the reality in which the human being acts, the human being as he is. Therefore, it seems justified to treat institutions as those institutional forces which, coming from the furthest areas of the institutional sphere, will have any influence, even the least of all, on the way people behave, on the way they act and on the relations between active people. Therefore, institutions should be seen in the context of their strength of influence on human beings and not only from the perspective of their (institutions’) ‘origins’ (cultural, legal, economic, social or moral institutions) [Derkacz, 2018, p. 25].

1.2. Dynamics of an institution

Institutions, however they may be defined, do not form a single monolith but have different characteristics that define them. Institutions did not exist in the socio-economic reality once and for all, but they are constantly evolving, changing, creating new ones and disappearing. After all, institutions do not exist as such themselves, suspended in some mysterious abyss of existence, but constitute a reality that surrounds every acting person. Institutions are, no doubt about it today, a specific tissue of social life [Czech and Zachorowska-Mazurkiewicz, 2018, p. 37]. Also the concepts of institutional complementarity between the production regime and social assistance occur [Krampf, 2019, pp. 881–896]. In the light of the above, we can speak about a certain typology of institutions, about the process of institutional changes and about the institutional sphere. Taking into account this context, it is worth presenting the most important issues describing the dynamic character of institutions, which appeared in the deliberations of economists shaping the new institutional economics.

The dynamics of the institution is a characteristic feature that was revealed at the very beginning. Original definitions of institutions include the signs of dynamic changes of institutions in the process of continuous adjustment to the environment in which society functions [Veblen, 1971, pp. 173–174]. This fact caused attempts to categorize institutions in a specific way to begin to appear. J.R. Commons in his deliberations speaks about the coexistence of
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Institutions, including disorganized customs and organized organizations, such as family, business or state [Commons, 1934, pp. 69–72]. In another place, explaining the difficulty of defining the area of institutional economics due to the multitude of ways of understanding institutions, J.R. Commons undertakes a specific typology of institutions. There appear institutions understood as (1) frameworks of law or natural rights which limit human activity, (2) behaviours influencing the actions of others, (3) economic behaviours concerning material space, and (4) dynamic mass actions taking over the superior function of freedom of choice (control instead of laissez faire) [Commons, 1931, p. 648]. Today, probably already considered classic, the division of institutions into formal and informal institutions has been enriched by Z. Staniek. In the context of institutional balance, he writes that “at a given level of institutions, we are dealing with the coexistence of ‘emerging’ and ‘existing’ institutions. Institutional equilibrium means matching selection mechanisms and institution creation processes. This balance is expressed in a set of institutions and their links, which enable the basic functions of the institutional system to be carried out [Staniek, 2012, p. 110]. It seems reasonable to add ‘phased out’ institutions to the full picture of institutional incentives. These will be those institutions which in the process of institutional changes under the influence of endogenous or exogenous factors cease to fulfil their role in the economy. After all, maintaining ‘extinguished’ institutions may be important in the process of scientific research in terms of profound retrospection. It is also possible to mention the typology of the institution proposed by G. Kolodko, who, in the context of considerations on the rules of the economic game, lists institutions that explain, control, balance, dynamize and adjust [Kołodko, 2008, p. 296].

It is worth mentioning here another division of institutions, the key to which will be the strength with which they influence human activity in the social and economic space. Different types of institutions determine human activity by limiting it and/or making it possible. However, the impact of all institutions is equally strong and equally significant for the socio-economic phenomena. It is not difficult to see such a dependence in the socio-economic reality. In this light, we talk about essential and substractional institutions. The former will be the fundamental determinants of human activity, while the latter will determine this activity in such a way that it affects its activity without changing its foundation. The institutions defined in this way jointly create an institutional space determining the character of human activity, essential in terms of their essence and substractional in the periphery of the institutional sphere.

To end this section, the aim of which was to discuss the most important issues of the institution's theory, one fact should be clearly highlighted. Institutions were not established only once. Institutions have always been here, they surround the contemporary world and will determine the activity of the next generations. Institutions as such are subject to constant change under the influence of other institutions. A specific dynamic picture of the institution is, therefore, revealed [Stankiewicz, 2012, pp. 270–272]. Such a dynamism of institutions became a contribution to the creation of five statements determining the changes of institutions in the social and economic reality. These claims are as follows [North, 1993, pp. 1–3]:
1. Continuous interaction between institutions and organizations in conditions of economic deprivation makes competition the key to institutional change.

2. The competition forces the organization to continuously invest in knowledge and skills in order to survive.

3. The institutional framework provides incentives that dictate the types of knowledge and skills perceived as necessary to optimise benefits.

4. Perception (perceptions) comes from the mental structure of the players.

5. The institutional matrix determines the institutional change in an incremental way.

D.C. North concludes that “the viability, profitability and even survival of a social organization depends on the existing institutional matrix. This institutional structure enables them to exist and its complex network of interdependent contracts and other relationships has enabled them to emerge” [North, 1993, p. 3].

1.3. Identification of institutions within the boundaries of the company

The trend of new institutional economics in the literature of the subject is most often described from the perspective of particular theories, i.e. the institution theory, theory of transaction costs, theory of contracts or theory of contracting [Brousseau and Glachant, 2008]. Although their cognitive value is invaluable for contemporary economics, in his scientific work the author proposed a different method of its presentation. In this article, the author presents the theory of institutions, which is the most important issue for the entire new institutional economy, from three perspectives. They are: (1) the institutional economic order as an object of institutional determination, (2) the institutional sphere which is the source of institutional determination and conditioning of human activity, and (3) man who is an active subject in the socio-economic reality (see Table 1). The use of such a method of discussing the most important issues of the new institutional economics enables the analysis of individual theories, showing how man acts in the conditions of institutional determinants, in the scope of a specific element of institutional order being the object of interest of a specific theory of the new institutional economics.

| Perspectives on the presentation of the institutional theory within the company |
| Element of institutional economic order (subject matter) | Element of the institutional sphere (conditions) | Acting person (entity) |
| What is the subject of institutional determination? What socio-economic phenomena are the subject of interest of a particular theory? | What part of the institutional sphere does the object of a particular theory refer to? What are the sources of working institutions? | How does man act? What is the logic behind the action of the host? |

Source: own study.
Such a way of conducting considerations in the area of the new institutional economics goes beyond the subject matter of the present considerations. Therefore, it is worth mentioning at this point that the paper presented here, which deals with issues convergent with the theory of institutions, is only one of the elements of the author's scientific work, in which the above methodology is used. In this light, it should be stated that the issues of institutional determinism of transaction execution within the company will be discussed in three aspects but they constitute an inseparable whole. First of all, the material context, which consists in discussing the institutional economic order within the boundaries of the company, will be outlined. Further sections will present the elements of the institutional sphere that establish the conditions for the functioning of the organization and what seems to be the most important. We will discuss the subject, which is a person acting within the company. These three perspectives are intertwined by the institution clamp, which is the main element of the new institutional economics, and which are the subject of this discussion. This procedure will enable to present the theory of institutions – and in the future theories of new institutional economics – in the context of institutional determinism operating within the company. In this way, it will be possible to search for an answer to the key question – what are the reasons for different ways of executing transactions within the company?

Seeking answers about the reasons for the diversity of ways of executing transactions within the boundaries of the company has forced a specific redefinition of the concept of the company. The contemporary perception of the company is far from the place of production or provision of services. More and more often companies are perceived as institutional structures [Robson and Beadle, 2019, pp. 845–859]. The starting point for this article is a phenomenon that is referred to as the economic order. It can be identified with the well-known economic order in the economy [Matuszczak, 2009, pp. 125–141]. The latter, however, should be referred to the principles of sustainable development as perceived in a neo-institutional perspective. In this regard, it can be stated that organizational governance will be a specific situation of a company in which a whole series of transactions carried out by an active person under the influence of an institution determines the sustainable economic development of the company. In the following section of the paper we will present an attempt to answer the key research question from these three perspectives.

2. Institutions and organizational governance within the company

The first perspective of identifying the impact of the institution within the boundaries of the company forces the presentation of elements of institutional determinism. Which parts of the enterprise, its organizational elements and relational structures are subject to the influence of the 'institution'? To this end, it is necessary to present the author's perception of socio-economic phenomena which are crucial for the present considerations. They have been
very clearly embedded in the new institutional economics, which explains the existence of institutions in relation to individual human behaviour and the consequences of human action in terms of human interaction [Hodgson, 2007, pp. 12–14]. First of all, it is worth answering the question: what is a company in the neo-institutional sense? Thus, a company should be understood as a complex network of relations and relationships between people who, with the use of appropriate competences, carry out activities jointly aimed at the implementation of strategic objectives. Man acting within a company has the characteristics of a contracting man and his actions are part of the transaction mechanism [Williamson, 1994]. Man-made transactions within a company clearly determine the existence of a complex network of relationships between other players. Not only within the company, but also outside it. Relations between the ‘interior’ of the company and the consumer are also gaining in popularity and are increasingly being considered by economists [Potts et al., 2008, pp. 459–474]. The person as such, acting within the boundaries of the company, remains a member of the society and thus his professional activity is one of the elements of his activity itself [Chavance, 2009, p. 23].

A company understood in this way can be referred to, for example, the concept of modularity in an organization, where the organizational complexity is a matter of both the number of separate components of the organization as well as mutual relations or interdependencies [Langlois, 2002, pp. 20–23]. Therefore, it is impossible to analyze human activity within the company – regardless of the economic context of this analysis – in isolation from this fact. In other words, a person who undertakes certain activities within the boundaries of the company acts in the same way in a very holistic sense in society [Whalen, 1996, pp. 83–99].

An equally important element of these considerations is the fact that the activity itself is carried out within the boundaries of the company. This is not the place to deal with this issue in a very detailed way. It is essential, however, that these activities are perceived – or perhaps it should be said that they should be perceived – as specific transactions carried out within the boundaries of the company. Transactions in the literature are often characterized as market transactions that clearly generate specific transaction costs for the company and require adequate resources, often in the form of specific assets [Hardt, 2005, p. 3]. The concept of dynamic management costs, which are generated by the need to convince, negotiate, coordinate and teach others, is also becoming more and more common in modern economics [Langlois, 1992, pp. 99–127]. However, the essence of the transaction is the exchange of goods (services and/or products) itself, which is carried out by two parties to the exchange according to specific contractual rules, which are characterized by formal marking of the contract and relative predictability of the effects of the transaction without the need for intervention of a third party [Williamson, 1998, pp. 80–81]. Transactions carried out within the boundaries of the company will, therefore, be all kinds of activities and processes which, being consistent with the company’s strategy, will be aimed at achieving operational objectives. The sequence of activities perceived in this way emphasizes the contractual aspect, and the process owner and the persons carrying out the activities are perceived in the category of the contracting person. In this sense, a person acting within the boundaries of the company, under the influence of a wide
stream of institutional determinism, has an ability to make optimal choices, which imply the need to make contractual decisions including those institutions that will shape the execution of transactions *ex post* in the contracting process [Buchanan, 1975, p. 229]. Therefore, the contracting person, acting within the boundaries of the company, has an opportunity to use the management concept, whose difficulty – and at the same time the advantage – lies in the fact that decisions in the contracting process consist, on the one hand, in the independent resolution of conflicts, and on the other hand, concern the design of management structures in such a way that they anticipate and/or prevent the occurrence of future disputes. Therefore, a contracting person has a possibility of designing contracts in accordance with the rules of measuring the ambiguity of functioning or features concerning the supply of objects of the contracted transactions.

The question of different ways of organizing and executing transactions within the boundaries of the company remains open. There is no doubt that a person effecting a contract, making certain transactions within the boundaries of the company, acts under the influence of a wide stream of institutional determinism. But why do some people act in the same way and others in different ways, in a situation of the same institutional determinism? Observation of the social and economic reality and the practice of enterprise management makes it possible to make a specific hypothesis. It is possible that between the institutional sphere and the working person within the boundaries of the company there is some kind of a system of transfer of ‘the institution’ to the inside of the organization. “Human beings must not be treated as fully rational entities acting in a completely sovereign manner and maximizing their own benefit (profit or usefulness) only, but rather as members of society whose objectives and behaviours are the result of rules of social coexistence and social roles specific to a particular community. Similar principles apply to economic activity that is only a part of the social activity of people” [Czech and Zachorowska-Mazurkiewicz, 2018, p. 46]. Therefore, as a result of the activity of certain institutions, can a person acting within the company’s borders not close himself or herself in on the activity of other institutional determinants? In this sense, the system of transfer of institutions becomes a kind of mechanism for filtering institutions according to the subjective key of the acting human being. It is a kind of a barrier for an institution which finds its fundamental justification not in the logic of market mechanisms, but in the process of socialization of man and society [Szacki, 2002, pp. 676–678, 894–895, 932].

The previous section of the article mentioned the division of institutions according to the criterion of the power of influencing an operating entity. We talk about the division of institutions into essential and substractional institutions. But why are there organizational distinctions between similar transactions in the environment of the same institutions? According to the economics of transaction costs, one could say that it is the result of generating specific transaction costs in different organizations. Therefore, we must agree with Hart’s statement that “the amount of transaction costs depends on the quality of the institution” [Hardt, 2010, p. 26]. This statement can apply to the subject of this article that the amount of transaction costs will depend on the quality of institutions that determine this activity. At this point, it
is worthwhile to refer to the observation of economic practice and enterprise management. It is not difficult to notice that enterprises function very differently despite the influence of ‘institutions’ of the same quality level on them. So, does the amount of transaction costs and the way the transaction is executed within the company’s borders depend only on the quality of the institution? At this point, one can risk a claim that the way of proceeding with transactions within the boundaries of the company will also be determined by the level of effectiveness of the system of reloads of business processes included in the transaction [Derkacz and Bolkunow, 2019]. This, in turn, determines the optimization of interpersonal relations within the framework of their economic activity. The contracting person needs not only high-quality institutions, but also a stable and efficient system of institution transfer through which these determinants are transferred to the company.

The answer to such a question should be sought in the system of transferring institutions to the organization. A durable and effective system should be built in accordance with the needs of transactions taking place within the boundaries of the company. After all, it is the mechanism that feeds social and economic processes within the boundaries of the company. Adequately, a pass-through system of transferring institutions to the interior of the organization generates an institutional gravitational force directed towards the institutional sphere. In turn, this institutional gravity, generated by the organization, draws into its interior all surrounding institutions. Even from the very observation of what is happening in the economy, it can be seen that there are organizations that are ‘slipping’ through the institutional sphere. This is due to the low throughput of an institution’s transfer system. Obviously, this state may be the result of conscious or unconscious closure to neo-institutional determinism. It should be remembered, however, that the institutional sphere is the source of institutions that, on the one hand, limit, but on the other hand, enable and/or facilitate the implementation of transactions within the company. The effects of this ‘slippage’ in the institutional sphere can be both positive and negative in the short term. In the long run, these effects may turn out to be only negative, if only because of the unpredictable dynamics of the institution. In the light of the above, we may attempt to state that the institution transfer system for transactional processes should be classified to the broadly understood institutional structure of the economy, which is increasingly often perceived as the main determinant of economic development [Williamson, 2009, pp. 371–387].

3. Institutions of the institutional sphere

The second perspective of identification of institutional determinism within the boundaries of the company is the existence of the institutional sphere, which in a real way determines everything that happens in it (in the company). It is hard not to agree with the statement that an economic contract is “a significant institution in the entire institutional structure of the modern social and economic system, closely related to the market mechanism, the process
of shaping transaction costs and the functioning of enterprises” [Stankiewicz, 2012, p. 99]. It is also undisputed that the modern economy and the processes occurring in it are subject to a dynamic fluctuation of the environment. The process of globalization, new technologies, changes in social and political structures, or even permanent changes in nature and many other elements of the contemporary reality significantly determine the behaviour of the contracting man. In a clear way, this economic contract can be applied to transactions carried out entirely within the company. The dynamics of the environment, but also the uncertainty and complexity of the processes taking place within the boundaries of the company and behavioural factors coming from various sources force people to seek alternative solutions for transaction execution. Behavioural factors, on the other hand, and mainly limited rationality and opportunism, although directly related to the personality traits of the players, are not separated from the global determinism of the institutional sphere.

Dynamic and complex reality shaping various ways of contracting has become the reason for the creation of a specific organizational imperative. It sounds as follows: “Organize the transaction in such a way as to save on limited rationality and at the same time protect it from the threats of opportunism” [Williamson, 1998, p. 45]. This statement shows clearly the key contracting functions, which are the organization and coordination of transaction execution processes in the dynamically changing institutional sphere. Referring in this context to transactions carried out within the boundaries of the company, one should consider what institutional forces will shape e.g. transaction costs. The institutional theory of transaction costs depends their amount on the characteristics of the transactions that can be carried out within the company [Williamson, 1994, p. 1]. At the same time, it should be stressed that the sources of these costs should be sought taking into account a broad socio-economic context. The level of transaction costs is, therefore, related to the management process, which means that their sources are at the level of specificity of required assets, uncertainty level and frequency of occurrence of such transactions in the economy. The institutional determinism of transaction costs thus comes from the transactions themselves on the one hand, and from the institutional environment in which these transactions take place, on the other.

All types of institutions, which are subject to constant changes, create a specific space determining in a different way the human activity within the boundaries of the company. An attempt at a coherent presentation of institutional determinism is the so-called institutional matrix of S. Kirdina. The theory of the institutional matrix is based on four fundamental postulates. The first one concerns the objective perception of economic phenomena that exist independently of man. The second postulate concerns social thinking and the holistic perception of the economy. Therefore, a proper understanding of the phenomena occurring in it requires an analysis of this economy understood as one of the social subsystems, which concerns the allocation of resources. The third postulate is the holistic approach, which is clearly focused on group activities and general rules of community functioning. The last postulate states that there are specific institutions in the national economy that are different from those in other economies [Kirdina, 2003, p. 183]. On the basis of the above postulates,
“the significance and role of basic institutions as the main component in the collection of institutes of society, being the basis for its sustainability and development, is shaped. (...) It is the base institutions that form the basis of the institutional matrix and facilitate the analysis of causal forces hidden beneath the surface of socio-economic phenomena” [Stankiewicz, 2012, p. 61]. The institutional matrix was given the shape of a three-dimensional space, which is described by political, economic and ideological planes. Thus, economic phenomena exist in the space created by basic institutions coming from the economic, political and ideological level. In the light of the above considerations, it can be firmly stated that all activities of the contracting person within the scope of the company, consisting in the execution of certain transactions, take place in a multi-level and multifaceted system of institutions, which exists in every society, sets the framework for economic and uneconomic activities of the contracting person [Gruszewska, 2018, p. 197]. In the author’s understanding, this system of institutions is the institutional sphere.

4. Institutions and individuals acting within the boundaries of the company

Starting with the discussion of the third perspective of institutional determinism identification within the boundaries of the company, it is worthwhile to ask ourselves the following auxiliary question. Who is this man who undertakes certain activities in the organization? It seems reasonable to cite here the statement of T. Lawson, who writes that “people are born in society, live and develop in such a way that their abilities and personalities, including their talents, are to some extent educated, formed and still changed by social conditions” [Lawson, 2003, pp. 204–205]. Thus, while taking up tasks performed within the company, a person still remains a member of the community which has shaped him or her in a certain way and continues to shape him/her. In the previous sections, the term ‘contracting man’ appeared. Then who is he? On the basis of a critical analysis of the literature of the subject, it can be stated that “the contracting man, as defined by the subject of his analysis, Williamson indicates a set of assumptions made in the analysis of economic behaviour. The observed behaviours are a source of conclusions on the subject of analysis: transaction, with its proper entanglement in organizational and legal governance” [Nowak, 2009, p. 198]. On the other hand, order in institutional terms may be perceived as a kind of a system of agreements and contracts concluded between economic entities, which determines the way of their cooperation or competition [Davis and North, 2008, p. 7].

The actions of the contracting person can be analysed from the point of view of behavioural assumptions. Social sciences, in particular functionalism, in the context of exchange theory, focus “attention on the study of the impact of phenomenon A on some broader system B. The exchange theorists did not override the question of functions, but considered them to be secondary, since no answer to them provides an explanation as to why phenomenon A exists, i.e.
why individuals behave in one way or another. [...] References to norms or models to which individuals submit themselves do not explain anything, because it is necessary to know what prompts individuals to comply with norms and where norms come from” [Szacki, 2002, p. 839]. Therefore, it can be stated that these norms do not automatically force a human being to act in one way or another. Obedience to the rules occurs when a person considers such a behaviour to be beneficial for himself/herself [Homans, 1967, p. 60]. This statement justifies the existence of the transfer system of an institution discussed in the previous section. The search for the causes of the contracting man's activity should be directed primarily towards human institutions which draw their goals and problems from the general condition of man as he is, acting under the influence of a wide stream of institutions [Jenkins, 1980, p. 5]. In this spirit, O. E. Williamson writes that “the economy of transaction costs characterizes human nature as we know it, by reference to limited rationality and opportunism. The first confirms the limit of cognitive competence. Opportunism introduces subtle self-interest management” [Williamson, 1998, p. 57]. D. C. North, on the other hand, “draws attention to the cognitive limitations of the individual and finds that scarce cognitive resources have a decisive influence on economic decision-making. If a person's cognitive abilities are limited, the decisions he makes are not based on real facts and events, but on their subjective representations” [Hardt, 2005, p. 9].

Rationality, which is attributed to professionalism and cognitive reliability, can be divided into three forms. These will be maximization as the strongest form, limited rationality – semi-strong form and organic rationality as the weakest form of rationality. The first form is often the cause of activities considered by the neoclassical economics [Alter, 1982, p. 156; Solek, 2010, pp. 21–23], the second form is attributed to the economic evolutionary trend and representatives of the Austrian school [Hayek, 1967; Menger, 1883]. The economics of transaction costs, on the other hand, accepts limited rationality as justifiable. It means that an active person has rational intentions that are rational to a limited extent [Simon, 1961]. Intentional rationality, therefore, applies to decisions aimed at economic management, while limited rationality reveals the incompleteness of the process of cognition, which refers to the institutional determinism of human activity in the economy.

In the light of the above justifications, it can be stated that the institutional rules of operation of the contracting person within the boundaries of the company have their source in the specificity of the transactions that they carry out. Under such institutional conditions, activities and business processes will be implemented using specific management structures [Williamson, 1981, p. 1544]. However, management structures are significantly linked to the institutional framework in which the integrity of transactions is a determining element [Williamson, 1979, pp. 235–245]. The way in which the contracting man works to select the appropriate management structures will depend on transactions that may be non-specific, mixed or idiosyncratic. The first of these determines the choice of market management. For transactions characterized by a low degree of specificity or even simplicity, the best way to execute trade is through the market, which offers optimal benefits from the regulatory framework. Transactions carried out in accordance with classical contract law are characterised by low identity of the
parties to the exchange, formal designation of the contract and relative predictability of the effects of the transaction without the need for third party intervention. The need to decide to execute occasional transactions, but in their mixed or highly specific nature, involves the choice of a different management structure [Williamson, 1981, p. 361]. Transactions of this type already give rise to certain problems which market rules are no longer able to deal with. Trilateral management, which identifies itself with neoclassical contract law, comes in handy here. “When the parties to such transactions conclude a contract, they are subject to strong incentives for its implementation. Not only have specialised investments been undertaken, the cost of which is significantly lower for alternative applications, but the transfer of these assets to a successor would create unprecedented valuation problems. The interest of the parties in maintaining relations is particularly high in the case of highly idiosyncratic transactions” [Williamson, 1998, p. 86].

The analyses presented in this section justify the statement that the actions of the contracting person and the decisions taken by him/her, aimed at achieving certain benefits from transactions within the company, are to a large extent determined by their (i.e. transactions) nature and institutional factors. The choice of specific management structures remains dependent on the level of specificity of the necessary assets, opportunistic attitude, limited rationality, uncertainty and the costs of carrying out transactions within the company. It can also be stated that the increase in the level of specificity of assets, opportunism, limited rationality and uncertainty leads the contracting person to organize transactions using such forms of management that will enable him or her to execute transactions within the boundaries of the company in an optimal way from the point of view of the contracting person himself or herself and the company in which they operate.

Summary

The consideration of institutional determinism of transaction execution within the boundaries of the company is an attempt to answer a key scientific question. What are the reasons for the existence of various forms of transaction organization and ways of their implementation within the boundaries of the company? To this end, the outline of the most important issues concerning the theory of institutions, which have been defined as the institutional sphere and the influence of institutions on the organizational order within the boundaries of the company, have been presented.

The section devoted to the presentation of scientific research results discusses the issues that have been included in the auxiliary hypotheses. The first one concerns the essence of the company. The author presents a definition in which he claims that a company should be understood as a complex network of relations and relationships between people who, with the use of appropriate competences, implement actions jointly aimed at the implementation of strategic objectives. The focus here is clearly on people-to-people issues, which seems
to be a key element in optimising the levels of transaction costs in today’s world. It is the relationship between the people operating within the boundaries of the company that is the glue that allows the flow of the effects of transactions. In this context, we can risk a claim, which should be discussed further in scientific terms, that relations themselves should be entered in the catalogue of institutions. Will the quality of relations between people not have the same influence on the actions taken, as in the context of shaping the level of transaction costs Ł. Hardt mentions [Hardt, 2010, p. 26]? It seems reasonable to claim that an appropriate level of quality of interpersonal relations within a company may be a factor which, on the one hand, limits effective implementation of activities within the company, and on the other hand, may enable or facilitate this activity. This fact will show the level of the strength of the relationship’s impact on the business activities carried out. It seems equally obvious to claim that interpersonal relations, understood as institutions operating within the boundaries of the company, are subject to human influence, thus they can undergo constant dynamic changes.

The second important element of the definition of a company is its operation. It should be quite clearly emphasized that activities undertaken by man within the boundaries of the company are here perceived as transactions. In a natural way, this statement directs thoughts towards contracting rules or property rights, which co-form the foundations of the new institutional economics. This perspective, however, is the subject of further works by the author. At this point, let there be a sufficient statement that each human activity within the boundaries of the company is perceived as a transaction in the sense that man has the possibility – or should be said to have the possibility – to shape the way of implementation of specific activities on the basis of relevant competences, skills and knowledge. In this context, the issues of opportunism, limited rationality and uncertainty have also appeared, which can be a determinant in the process of executing transactions within the company.

Defining an activity within a company as a transaction determines the existence of a specific entity, which is the third element of the definition of a company. It is, certainly, man who carries out particular tasks. Such a clear reference of human activity to a transaction becomes the foundation of the concept of a contracting person and the actions taken by him/her are inscribed in the mechanism of the company’s functioning. In this meaning, the contracting person carries out his or her activities consisting mainly in concluding appropriate contracts within the company, implementing the activities resulting from them and transferring the effects of his or her activity to other areas of the organization. All this takes place under the influence of active essential and substractional institutions which, on the one hand, will limit this activity and, on the other hand, may facilitate or even make it possible.

An attempt to answer the key question posed in this article has led to the definition of an auxiliary hypothesis, which presents the concept of an institution transfer system. It is a peculiar mechanism generating a certain power of institutional gravity, which allows for absorbing institutions into transactional processes within the company. This mechanism is a resultant of the contracting person’s attitude and depends to a large extent on the level of his/her opportunism, limited rationality, uncertainty and defined costs of transaction execution.
within the boundaries of the company. It seems reasonable to make such a hypothesis, which is confirmed by the observations of the socio-economic reality.

Considerations on the institutional determinism of transactions within the boundaries of the company, which are largely based on a critical analysis of the literature of the new institutional economics and the observation of socio-economic phenomena, led to the justification of the scientific thesis. Within the framework of the summary, it is worth emphasizing once again that a person operating within the boundaries of a company functions in a specific institutional sphere. The various institutional forces that originate from it, on the one hand limit it, while on the other hand, they give to it the possibility of action or make it easier. The positive function of the institution, which is relatively often overlooked in the literature on the subject, should be emphasized. The institutional sphere should be treated as a reality described by the institutions in order to get to know the socio-economic phenomena occurring within the boundaries of the company and to get to know the man who works here.

So, what are the reasons for the existence of different forms of transaction organization and ways of their implementation within the boundaries of the company? Based on the above considerations, it can be concluded that the institutional determinism of the transaction will include several sets of institutions. First of all, these will be the conditions related to the company’s organizational structure itself, in particular, those limiting itself to the institution transfer system and the quality level of relations taking place within the organization. The catalogue of factors determining the execution of transactions should also include the institutional sphere, which is the most extensive set of institutions, already richly described in the literature of the new institutional economics trend. It is also impossible to omit the described system of transfer of institutions to the company’s interior, which is a kind of mechanism filtering institutional determinism. The last element of the set of institutions – which does not mean, however, that it is the least important – influencing the quality of internal company transactions will be the person himself or herself, perceived from the point of view of the concept of the contracting person. This way of the contracting man’s acts, this being a result of the process of institutional socialization, the level of opportunism, limited rationality and uncertainty, will constitute an essential set of institutions determining the way of executing transactions within the company.

In the light of the new institutional economics trend, the above justification of the problem is obviously incomplete, which should be clearly emphasized. The answer to this question was given here from the perspective of the issues of only one of the theories of the new institutional economics – the theory of institutions. It seems natural to state that a complete answer to such a question can be obtained by confronting the issues of diversity of forms of transaction organization and ways of their implementation within the boundaries of the company with other issues of the new institutional economics, such as the theory of property rights, theory of contracts or theory of transaction costs.


References

Institutional determinism of the execution of transactions within the company