

NEO-INSTITUTIONAL PERSPECTIVE AND THE TRANSACTION COSTS IN THE SPHERES OF EDUCATION

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Abstract: *In a general context, neo-institutionalism brings closer "revolutionary" ideas aimed at fighting the actions of organizations that have ceased to prioritize achieving the greatest effectiveness, and which, by the force of inertia, are maintaining habits and rules that may have become obsolete or simply myths resulting from certain outdated social norms. Since the founding, may be outdated, and thus the sources and the basis of their functioning become obsolete. As the result of interventionism (which includes subsidies, social assistance or monopoly and other various forms of protectionism) general increase in costs, imposition of taxes, and the risk of inflation can be observed. Similar phenomena may occur when the State directly intervenes in education, which on a larger scale becomes closely related to the labor market, and thus to the economy and the well-being of citizens. The balance in the context of education, its dimensions, quality of teaching and the overall impact of the State on the results of educational institutions may also be disturbed and result in the lack of opportunities for positive development of Human Capital, while slowing down the development and even causing regression, both for the economy and the entire society and the State. With the following paper authors aim to perform a preliminary analysis of education management in the context of transaction costs. Critical reflection shows that there are areas where the benefits of the neo-institutional approach not only can potentially be the greatest, but also real and concrete steps to achieve them can be identified.*

Keywords: education, neo-institutionalism, transaction costs

JEL: I25, I26, I28

Introduction

Neo-institutionalism aims at the sources and outcomes of actions of organizations. Especially those which for some reasons changed from or never expected to set optimising their efficiency as a priority.

By the force of inertia, they maintain habits and rules that may have become obsolete or simply myths resulting from some outdated social norms. While the institution itself is a sociological term referring to certain regular behavior (Schotter, 1981) and talking about permanent elements of the social order (such as family, law, property) or activities that have been regulated and sanctioned (e.g. system of education), but also it refers to the social rules of cooperation (marriage, credit, divorce) or the activities of formalized organizations serving society (hospital, prison, factory) (Hodgson, 2006). Each of these elements, within the framework of technical and social progress, changing standards and scientific discoveries, may be subject to obsolescence, and thus the sources and the basis of their functioning may become

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outdated. A scientific approach is required here, science cannot be dogmatized, and problems should be solved with all currently available methods (Homan, 1931).

Supporters of institutionalism believe that through the state it is possible to directly intervene in the market and influence economic processes (interventionism). However, subsidies, social assistance or monopoly and other various forms of protectionism may manifest themselves in a general increase in costs, the imposition of taxes, the risk of inflation (Skousen, 1997) (Frentzel-Zagorska and Zagorski, 1993) (Lachmann, 2014). The same may happen when the state directly intervenes in education, which on a larger scale becomes closely related to the labor market. Finally this takes its effect on the economy and the well-being of citizens. The risk is related to a possible imbalance in the education system. It includes quality of teaching and the general influence of the state on the activity of educational institutions which may also be disturbed. As a result the lack of opportunities for positive development of human capital, while slowing down the development and even causing regression, both for the economy and the entire society and the state may occur. Such complicated relationships also result from the expectations of citizens, on the one hand, and of the state, on the other, towards the education process itself (Benabou, 2008). Regardless of whether the number of state interventions is very large or small, but a far-reaching change in the scale of the entire education, the mistakes made concern, not only entire years to come, but also generations.

Nowadays, the number of factors influencing the effectiveness of the education system no longer results from the seemingly territorial limitations of individual countries. The universal internationalization, interculturalism, globalization and many other factors contributing to the increasing interdependence between states pose enormous challenges to the entire system of institutions. This paper attempts to make an initial analysis of education management in the context of institutionalism and *homo oeconomicus*. Authors conclude with a critical reflection about optimising transactions in education, showing areas where, with neo-institutional approach, concrete measures can be taken to achieve best results.

General rules of agents and economic determination

Initially, in attempt to simplify the situation a bit and evaluate it in the context of the economy of education, it is common to return to the generally applicable principles of economics, which will also apply to education in the institutional context.

The issue concerns human needs that are inseparable from the existing and, in a sense, established through years, conditions and human choices. In this sense, economic efficiency deals with the maximization of gains, and in a broader scope - of human capital. At the time of transition from the individual level, it turns out, however, that the individual in the context of institutionalism often played a limited role. At the same time, it should be noted that human reactions often constitute a very complicated equation due to, for example, the conditions for making decisions (e.g. undefined historical premises). They may also be subject to obvious errors, the consequences of which may be long-term but no less painful, while peoples needs and choices may change at the same time (Knight, 1952). At the same time, these individual reactions are not easy to define, their nature is quite different from, for example, market data. It is easier to observe entire cultural patterns or institutions and their changes. In the historical institutional economics in 1934 it was even often stated that, in a general way in the humanities, actors are: "pragmatic beings always looking to the future and therefore always motivated by purposes" (Commons, 1934), referring to the similar position of Veblen, which in turn, he even took Darwinism as a model for the hard-to-agree social sciences and spoke of the difficult to accept "natural selection of institutions" (Veblen, 1899). In addition, it is worth noting that often, when trying to describe some rules, the focus is not so much on the actions performed, but more on the motives behind them (Knight, 1952). Thus, the economic description itself is very limited here and should focus on measurable quantities, where the rest will remain

conventional. At the same time, directly going towards empirical measures, which can therefore be the seed of what we would describe in this approach as a neo-institutional element (Boulding, 1957). In the following years, Schotter and Williamson brought closer the ideas of the new institutional economy as a kind of model of rational economic behavior of an individual in order to maximize their profit, and thus the institutions themselves appear spontaneously depending on market activity. However, the authors report that this evolution arises as a result of rational behavior. On the other hand the approach of explaining the individual's actions, while ignoring the context of the institution itself in which the individual's behavior may take place, ignores the reciprocal influence of the institution on the individual (e.g. through constraints). This may have a direct impact on the specific "survival" of a given institution or the process of its evolution into another, if it is possible (Setterfield, 1993). There is no clear answer here as to how the actual process should take place, but in the case of institutional analysis, one should think of the institution as "providing a framework for the behavior of an individual or a group over a short distance, but ultimately resulting from their behavior in the long run".

Interactions between institutions and actors

In the political science approach, new institutionalism is understood as a series of ideas from different fields that set the "rules of the game" describing the framework of interaction. Hence, in general, the explanatory matter for institutionalists is the preferences of the actors and the institutions themselves (Van Hees, 1997).

However, it is worth paying attention to the two possible dimensions of institutional analysis, distinguishing the specific roles of institutions and actors in theory, outlined here. When the results of applying a specific policy or its changes are explained using institutions, they are considered to be exogenous. However, in the case of their origin, the so-called institutional sources, their changes over time, i.e. dynamics - we consider them to be explained (dependent) - endogenous variables (Jupille and Caporaso, 1999). In the second, and perhaps more important here, dimension, the analysis would concern the preferences of the actors themselves (ie the primary goal, not the strategy). For in this regard, basic preferences are usually independent of institutions, their existence or rules. Institutions' cost-benefit strategies do not have a direct impact on these goals, while their overall impact may be in terms of possible outcomes or indirectly affect the identity of the actors themselves. In the scheme adopted by the authors of the publication, the approach in which the exogenous role is assumed by institutions and the actors themselves are classified as explanatory variables is the sociological new institutionalism. In this approach, an attempt is made to describe the preferences of actors through exogenous institutions, taking into account that there are also other, non-institutional, explanatory elements.

These interpenetrating spheres can be challenging with the current influence of the rules and management applied. Initial ideas of specific institutions may be distorted due to too much autonomy of individuals - choosing their own path or resistance to changes (coinciding, for example, with the general problem of the European Union (EU)) (Scharpf, 1988). In other cases, the difficult to define effect of various institutions, coexisting and dependent on each other, but evolving at a different pace, may arise.

Rules in the context of education and the EU

These issues, in the wider context of the EU, take on an even more special character. The concept of shaping human capital in the context of education is also becoming crucial. So, how to understand the issue of creating educational institutions in partially autonomous member states, where there may be differences between individual countries in the levels of education, the conditions for establishing them, and methods of verifying the results? It seems that the common denominator could be the effect on the labor market. However, in the context of many

years of education, this effect seems to be expanded on many years of being in the system, in which, although the following stages seem to depend on the previous ones, the end result is difficult to determine without detailed research on individuals and conditions that existed while they take part.

In the general concept, attention should be paid to the concept of *homo oeconomicus*. Although in terms of classical liberalism it initially focuses on the tendency of people to act on the basis of exchange, where the sphere of interests of *homo oeconomicus* is intertwined with the interests of others, it has been transformed into purely competitive activities and strong rivalry. All the more against the background of the "free movement" of people within the member states, it seems to depend all the more strongly on their ability and adjustment to the labor market (*market conduct*). In this context, it is often discussed the division of responsibility between the citizen and the member state, and in this approach the potential return will apply both directly to the individual and the society. It may involve both participation in increasing productivity, but also in increasing the burden on the social assistance system (Kramer, 2017). Thus, the differences between the quality of education systems will be stronger and the sensitivity to their effectiveness in this context will be increased. Perhaps it is worth paying attention here to John Stuart Mill's quote about an "economic actor" as the one "who inevitably does that by which he may obtain the greatest amount of necessaries, conveniences, and luxuries, with the smallest quantity of labor and physical self-denial with which they can be obtained."

So how can one approach this issue? Is it not too much of a simplification? Considered by many the founding publications (Zucker, 1977) (Meyer and Rowan, 1977) (Dimaggio and Powell, 1983) point to the huge role of creating ideas (*ideational*), and thus giving "meaning" to events, their rationalization. In this context, we would also talk about the issue of isomorphism of organizations that exist under the same environmental conditions (Suddaby, 2010). A kind of attempt at the answer of the EU system in the context of education is the introduction of various types of uniform systems for the verification of educational results. However, differences between specific markets and thus persistent environmental differences can have effects that are difficult to predict. This issue is even more complicated if we want to consider all education systems in the EU, and in the context of the entire path of education. However, focusing only on this element may lead to the overlooking of other essential elements, i.e. the symbol of education, its meaning and deeper relationship to the environment in which it occurs. In this context, it is possible to reflect on individual stages of the education system in the context of trying to find the sphere of education, which can be measurable in an economic sense and rationalized. At the same time it may be possible to minimize transaction costs, but in terms of certain objective outcomes. While this may conflict with Suddaby's attempt to extend the approach, the authors want to show that when it comes to the economics of education, optimization of results is the only option.

Context of actors in education and their results – reflection and conclusions

How can the education system be developed in the context of the transaction costs initiated by Williamson (Williamson, 1979) and the rational choices of actors? These costs can be understood as the costs of running an economic system. However, minimizing costs alone without their in-depth analysis may not bring the intended effects (Ashford and Biswas, 2010). In the context of education, attention should also be paid to a specific result, e.g. the implementation of the effects of the program. So which costs would be minimized? Or maybe the effects should be maximized in a wider context while maintaining similar costs, which could be considered a reduction of these costs? It might seem that in the cost category you can put emphasis on infrastructure, training instructors (salary), but in this context we will focus more on the relationship with the recipient, which is the labor market, and a kind of satisfaction of

actors. The first thing that can be noticed is the lack of a close relationship and a large amount of research allowing to accurately determine the path of a single actor through the entire education system, i.e. from the moment of entering the lowest level of education and following its results, until he leaves the system and enters the labor market. The number of variables, completely independent of the education system, is enormous and the coordination of the various stages of the education system itself can also be complicated and difficult to quantify. An important problem with the approach used is rationalizing the choices of actors. In this context, it is difficult to pinpoint at what stage such rationalization may take place. Thus, it is very difficult to determine how the relationship between the institution and the actor will be strictly maintained. Some education systems also generally do not allow for a choice at lower levels or, in other cases, a change of choice when starting a given path at a young age (e.g. technical education in Germany). At the same time, the earlier stages of education and the evaluation of results after their completion are largely unrelated to the labor market, but only to the internal evaluation system. Although it may be a standardized system and in relation to the later stages, its translation into specific results on the labor market, if it does not end with obtaining a specific profession, is very difficult.

Paying attention to specific problems in clearly defining the role of actors and relationships in the transition to the labor market at particular stages, a special case that seems to avoid the problems of its predecessors is, although related, but actually separate, higher education system. Here, at the outset, the choice of the field of study and place of study is made by a person who can make an informed choice and is legally independent. That persons preferences have largely been defined therefore she or he may be able to judge to what extent a given choice will bring a specific benefit and achieve the intended goal.

One of the particular difficulties when trying to analyze transaction costs and the effectiveness of a given institution, which can be measured here by the measure of actor satisfaction, is the availability of data. However, in the case of the paths of people entering higher education, it is an exceptional situation when the availability of this data increases. Taking advantage of the broad elements that shape and build the structure of higher education institutions, it is impossible not to distinguish the availability of many important measures. Higher education institutions must work in close relationship with local authorities, education institutions on the lower level, business and establish international relations. In this context, the degree of development and advancement can also be determined by scientific activity, whether through publications, or implemented projects and obtained funding. These measures are universal in the global context and may constitute a standard against the background of the entire EU. The current situation allows, in some EU countries (e.g. Poland), to determine the effectiveness of specific groups of graduates on the labor market (ELA research), at a given university in a given year, and in determining the field of study, both in terms of time and space. Such deep data allows for analysis and pairing not only in the context of the average salary for a given field of study, but also to refer to a specific activity on the market (e.g. salary statements in the field of economy). The authors believe that this may be a contribution to determining in a specific place and time the relation of the average remuneration of graduates of a given field of study to the average remuneration in a given, related field of the economy. Thus, quantitative comparisons and the determination of key elements that can be optimized by means of structural equation modeling (SEM). It is not only about reducing costs, but also about redistributing costs, acting in response to the needs of actors while maintaining the exogenous nature of the institution.

In the neo-institutional context, the quantitative and empirical approach seems to be necessary for a meaningful analysis of human capital. Although the controversial idea of rationalizing choices in the context of maximizing the effects on the labor market by obtaining the highest potential salary reminds us of a very competitive and individualized approach, it

should be noted that it does not exclude the fact that actors may also condition their decisions by other factors. The quantitative approach, in this case, allows for reference to specific institutions at a higher level, which can be financed both from public and private funds, and an attempt to undertake which spheres of their activity determine the potential success of people undertaking higher education. It is worth recalling here the mention of Hodgson, indicating that in the context of building an institution, the level of its appreciation by actors, i.e. acceptance of the methods of action and rules associated with it, is closely related to its "survivability", and thus its "to be or not to be" (Hodgson, 2006). The steps taken here can therefore bring tangible results. The returns that both actors and society receive, and even in the case of the free movement of people in the EU, all EU countries, resulting from increased competences, can also be analyzed in a broader context, but the contribution of a university as an idea provider is difficult to be determined and may escape analysis looking for an unambiguous answer. Referring to Suddaby, this research would have to be a kind of internal perspective penetrating the entire organizational mechanism, capturing the more extensive social systems in which it exists, the authors leave such research to other researchers.

The approach, proposed in this article, gives a possibility for further research and will be developed in a subsequent analysis which will lead to the form of a doctoral dissertation.

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