

“Implementation forms of institutional support for traditional and innovative development of national economic systems”

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ARTICLE INFO	Mikhail Postaliuk, Venera Vagizova and Taras Postaliuk (2013). Implementation forms of institutional support for traditional and innovative development of national economic systems. <i>Investment Management and Financial Innovations</i> , 10(4)
RELEASED ON	Monday, 09 December 2013
JOURNAL	"Investment Management and Financial Innovations"
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”



NUMBER OF REFERENCES

0



NUMBER OF FIGURES

0



NUMBER OF TABLES

0

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Implementation forms of institutional support for traditional and innovative development of national economic systems

Abstract

The article focuses on the theory and methodology of origin, functioning, development and transformation of institutions in the process of traditional and innovative development of national economic systems. The authors carry out a diverse contrastive decomposition of national economic systems, laws, patterns and trends of their development. A functional role of interaction of traditions, innovations, investments and institutions in a national economic system of Russia as well as controversial polyfurcation consequences of such interaction are revealed.

Keywords: national economic systems, business, power, socium (social medium), diversification, institutions, tradition, innovation, investments, laws, contradictions, dissipations, bifurcations, fractals, institutional fields, “tough” and “mild” institutions.

JEL Classification: P51.

Introduction

Objective. The aim of the study was to identify the nature of traditional and innovative development of economic systems and demonstrate its impact on the diversification of institutions; to reveal the interaction of traditional institutions as stable fractals of a national economic system, innovative institutions as the conditions for its creative destruction and renewal, and investment institutions as a way to ensure sustainable transformation and diversification of these processes in Russia.

Methodology, findings. To achieve this goal, a holistic approach and method of decomposition to the study of traditional and innovative development of national economies were used, which made it possible to identify “a genetic resource” – an economic tradition, “a genetic push” – “an innovative idea”, the basis of dynamic transformation and diversification of institutions – intellectual property or intellectual capital [1, 2, 6, 7, 8]. With the help of deduction we were able to reveal the logic of occurrence, function, development, transformation and diversification of an innovation process and its institutional maintenance; to point out the peculiarities of open (innovation) and closed (traditional) areas of a national economic system; to identify it as a contradictory unity of traditional and innovative institutions, in which their general and specific, hard and soft forms are interacting and diversifying.

Originality. The original character of the study is implemented by the fact that the diversification of institutional matrix is presented and justified as the traditional and innovation process in the development of Russian national economic system, in which traditional and innovative institutions of business, government and society are interacting at different levels and in different social cultures.

1. Research tools

Intellectual capital is the main in-system multi-functional form of institutional maintenance of traditional and innovative development of any economic system. It should be stated that at all stages of its formation, functioning and development the intellectual capital gives rise to an appropriate system of institutional self-sufficiency and the mechanism of its transformation, diversification and development. An innovative idea is a dormant intellectual capital. Originating on the basis of tradition, an innovative idea is transformed into intellectual capital. It specifies and distances itself in the economic system and in the system of its institutions within a certain set of rights. At this stage its personification takes place. It gets its legitimate or shadow owner and a subjective transmitter and, like any capital that “abhors a vacuum” rushes to get its result – economic innovations, and through them – to systemic effects and/or to any other benefits. However, not every innovative idea is embodied in an economic innovation, but only that one, which finds its application in business practices and is transformed into intellectual capital; in other words, it becomes a self expanding value. Consequently, an economic innovation is an intellectual capital applied or implemented in practice, which manifests itself in new goods, new capital and new institutions. The innovation, applied in an economic system, acts as an economic innovation and an adequate form of capital. They have a specific institutional arrangement, which transforms the economic innovation and its capital form into an economic tradition. The logic of emersion, functioning, development and transformation of an innovation process and its institutional support is given in Figure 1.

Consistent development of views on interactions of economic traditions, innovations, intellectual capital and their institutional support significantly enhanced the understanding of their origin, types and objective

laws of evolution of these processes. The degree of closeness of connection or disconnection of these processes in various economic systems is multiple-

valued. In this regard, it is necessary to state reasons for the existence of this ambiguity and to give their definition in an institutional aspect.

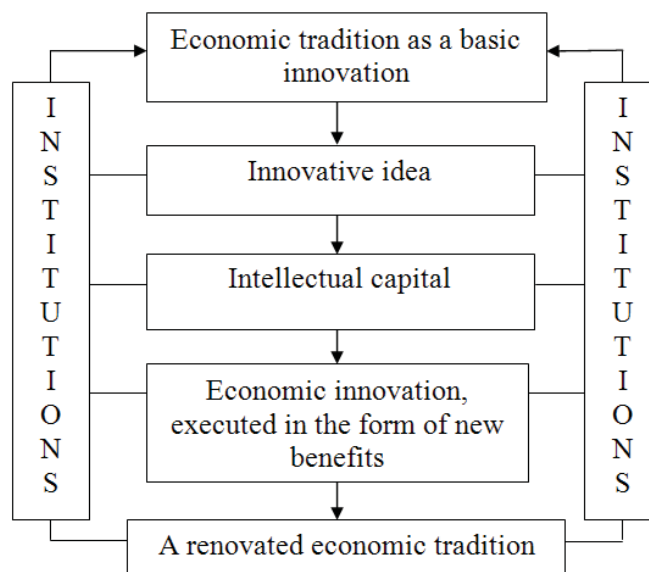


Fig. 1. The logic of emergence, functioning and development of an innovation process and its institutional support

Reasons for the existence of an economic system in general are a universal law of relative scarcity of resources and the conditions of uncertainty of its realization. Three factors form the basis of the law of scarcity: first, the continued growth of human requirements; secondly, the scarcity of material goods and services needed to satisfy them, and thirdly, adequacy or inadequacy, diversification or lack of it in the system of institutions that are to provide the implementation of the first two circumstances. The economic system operates by means of its structural traditionally innovative institutions such as specialization of labor, ownership, control, monetary system, labor organizations, government agencies, corporations, taxes, money, income, etc.

Within the context of our research a national economic system can be firstly defined as an institutional form of economy organization, where the ways and means of effective use of limited (scarce) resources are incorporated and distributed under the conditions of uncertainty and risk; and secondly, as a whole complex of traditional and innovative institutions, ensuring reproduction of goods that meets the requirements of people under conditions of scarce resources, uncertainty and risk.

In order to disclose the tendencies of traditional and innovative development of a national economic system, to identify the interaction of its traditions, innovations and institutions, their domains and subsystems, laws and regularities of their dynamic transformation and diversification, it is necessary to carry out a variable-based decomposition of the national economic system up to its elementary level. In conditions of globalization and regionalization each

such system has common and specific features. Thus, by way of an illustrative example of such processes we will refer mainly to the Russian economy.

The first variant of the decomposition makes it possible to mark out three spheres of the economic system, in which traditions, innovations and institutions interact.

2. A sphere decomposition of an economic system

The first option of the decomposition makes it possible to distinguish three sphere of an economic system, in which traditions, innovations, investments and institutions interact.

The first one covers the institutions of state and its executive bodies, the second – the institutions of business, nonprofit organizations, households and an individual as a participant in a social, economic and environmental relations, and the third – the institutions of socium, legislative bodies at various levels and various community organizations, unions and other associations. Flows of information are circulating within each institution, and among them. Whereas the institutions of governance and control provide an ideal eco information (II) in the form of regulations, the institutions of a real sphere – the real information (RI) – demand, supply, products, services, prices for them, etc., and the institutions of a socium – a coherent ideal-real information (IRI). In each area traditional institutions can be distinguished, judging by the type of activity, where the reproductive activity and reproduction of traditional information are realized (culture) and innovative institutions, which productive activity is carried out and innovative

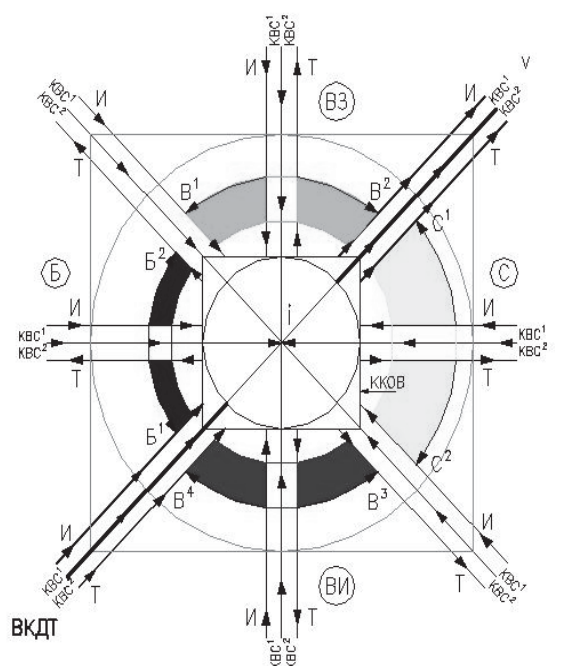
information (culture) is created and reproduced. The law of reproduction of a national economic system stability, or the law of stabilizing tradition plays the role of a moderator in a traditional sphere of institutions' activity; whereas a moderator in an innovation sphere of institutions' activity is the law of renewal of a national economic system. The interaction of these laws gives rise to a dynamic pattern of transformation and diversification of traditions, innovations, institutions and investments.

Thus, based on the analysis of the first version of the decomposition of a national economic system, we can come to the conclusion that they exist, interact and diversify traditional and innovative institutions.

3. Decomposition of dynamic transformation of institutions

The second version of the decomposition of a national economic system, shown in Figure 2, is related to such characteristic feature as open (innovation) and closed (traditional) spheres of diversification of institutions, the regulator of which is a dynamic pattern of transformation and diversification of traditions, innovations, institutions and investments in the quadrants of a circle of the optimum opportunities in the spherical subsystems of business, power and socium.

Three internal spherical interacting subsystems – Business (B), Power – the legislative and executive (B3, BИ) and Socium (C) with two institutional environments: traditional and innovative, are pointed out and analyzed in this variant of the decomposition of a national economic system. Institutional traditions and institutional innovations interact as system benefits. In such a case traditions act as a genetic resource of innovations in spherical subsystems of business, power and socium, as well as their breeding grounds. The latter is governed by the law of reproduction of a stabilizing tradition, which accumulates the centrifugal forces of traditional institutional flows of a national economic system in terms of quadrants of a circle of optimum opportunities and through internal environment channels regulates their dynamic transformation and diversification according to institutional innovations. Diversification of the latter with traditions and their transformation is governed by the law of renewal, which accumulates centripetal forces of institutional innovations in the quadrants of the same circle of optimum opportunities, and, in combination with investments, provides the enrichment of institutional traditions of a national economic system and through external environment channels adapts new social cultures.



TYPE CODES

B - Business;
C - Socium;
B3 - Legislative power;
BИ - Executive power;
T - Traditions;
И - Innovations;
I - Investments;
KBC¹ - Channel of external environment;
KBC² - Channel of internal environment;

ВКДТ - vector channel of dynamic transformation;
C¹ - C² - curve of consumer capabilities;
B¹ - B² - curve of manufacturing capabilities;
B¹ - B² - curve of legislative capabilities;
B³ - B⁴ - curve of executive capabilities;
KKOB - quadrants of a circle of optimal opportunities;
V - vector of dynamic transformation and diversification of traditions and innovations.

Fig. 2. The operation model of the pattern of traditions, innovations, institutions and investments dynamic transformation in quadrants of the optimal opportunities circle of business, power and socium spherical subsystems

A national economic system as an open, innovative sphere of institutions exchanges matter and energy with the environment, does not hinder the exchange of world institutions, allows the update of its elements – business, power and socium subsystems, and the exchange of their models in the process of dynamic transformation and diversification of traditional and innovative institutions. In other words, in a national economic system there always exist, operate and develop innovative institutions, the regulator of which is the innovation law of its renewal. But on the other hand, as a slice in the cultural layer of a given civilization, any national economic system is focused primarily on the reproduction of this very type of civilization. From this perspective, it appears to be a closed subsystem of traditional institutions. Opportunities for innovative institutions “grown” in one national economic system, in other systems are limited and can hardly prevent the destruction of ethnic institutions and integrity of the civilization. The role of a natural restrainer is played by institutions – fractals, that is, by moral principles, dominant values and traditions that support the stability of a society and protect it from the loss of its identity and ability to reproduce it (to be self sufficient). Control over the institutions in this sphere is taken by the law of stabilizing tradition of a national economic system.

Thus, the analysis of decomposition of the second variant of a national economic system shows that it is a contradictory unity of traditional and innovative institutions that interacting, transforming and diversifying represent the source of its development.

4. Decomposition of institutional contradictions

The third option of decomposition of the national economic system is the study of institutional structure of contradictions in subjects of its innovative area. Most strikingly these contradictions can be traced in both integrating and disintegrating innovative activity subjects of the institutions, functioning in Russian economy. Institutions of partnership and cooperation are related to the first group of the institutions. Thus, for R&D organizations of fundamental character the immediate goal is to achieve an innovative idea; for other R&D organizations, focused on applied subject matters, it is the embodiment of the new idea into particular innovations; for entrepreneurs – to get innovative profits. The institutions of innovation partnership and cooperation innovative activity serve as a mean of ensuring the implementation of these goals. Their innovative activity helps to achieve these purposes. It is just in this communication that synergistic functions of these institutions, their integrating character are manifested. Among the main reasons,

stipulating the activity of such a tendency, can be stated: first, the multiplicity of actors in an innovation process on the functional stages of its implementation; second, the diversity, not single ordinal character and reciprocity of goals and means of the actors, carrying out an innovative process, and third, the realization of goals common to all actors in innovative relations leads to the result, which can not be just reduced to the sum of isolated results. The result of all is an increase of mass consumer costs, reduction of the cost of their units and achievement of socially significant, synergistic effect – the growth of total intellectual capital, which brings together the subjects of innovative economic relations and ensures the homogeneity of institutions.

Weak points of market forms of partnership and cooperation in the Russian economy and its regions reduces the effectiveness of their work. This state of affairs was particularly notably traced in the period when Russia was joining the WTO. Thus, despite the fact, that Russia is among the leaders in terms of investment in research and nano-technology, the efficiency of these spending does not correspond to the position of real leaders in this field of the world market. The largest number of nano-products in the structure of world nano-product market is held by the USA – 46%, European countries – 28%, Asia – 20%. Russia is among the other countries that occupy 6% of the world nano-market.

To the second group of institutional contradictions, that disintegrate actors in innovative sphere of the Russian economy, can be referred to the contradictions of interests and can be presented in five subgroups: the contradictions in the interests of actors of innovative relationships that define a particular type of innovative activity and its regulatory institutions; the contradictions of a psychological nature arising in the process of conversion of traditions into innovations, which are manifested in the clash of different institutions; the contradictions of innovative relationships with other elements of the economic system in which they arise, operate and develop; the contradictions on different levels of implementation of an innovative process: international, national, regional, local, on the level of business and household; the contradictions of innovative economic cycle structure, consisting of phases, implementation of which is based on principles and activity institutions that are considerably distinct from each other. This group also includes contradictions between the need for innovative development and consequences negative for Russian economic system.

The group of institutional contradictions, disintegrating the actors in innovative sphere of the Russian economy has had a negative impact on their activity.

Results, that were achieved by us and Gaidar Economic Policy Institute after carrying out a research survey of enterprises in various sectors of Russian economy at the micro level show that there is a considerable reduction of investments into Russia' economy. Half of the surveyed companies intend to keep investment policy at the level of 2011-2012. There are some companies, which are going to increase the investment program. But they are 10% less than those, who plan to reduce it.

5. Decomposition of dissipative phenomena

These poly functional states of actors of innovative relations in the Russian Economy are responsible for the fourth option of decomposition of a national economic system, connected with the study of dissipative phenomena in interaction, transformation and diversification of its traditions, innovations, investments and institutions that are acting in the forms of dissipative costs, dissipative transformations, diversifications and other dissipative processes in institutional structures of the economic system. Their ups and downs, strong and weak points depend on many exogenous and endogenous factors. The level of dissipation of an economic phenomenon depends on the phases of an innovation cycle. The greatest degree of increase is observed at the phases of putting innovations into practice, at the phase of its commercialization and distribution, at the phases of renovation, transformation and diversification of traditions, innovations and institutions.

6. Decomposition of social consequences of transformation

It should be noted that defining the functional role of interaction of traditions, innovations and institutions in a national economy one should take into consideration the fact that it has a mixed systemic poly functional consequences. Traditions, innovations and institutions in the process of dynamic transformation and diversification create and at the same time destroy the national economy. On the one hand, under their influence a lot of positive creative, technical and technological, structural, organizational, managerial, social, economic, institutional and other systemic changes occur at all stages, levels and in all areas of business, power and society. These changes strengthen the national economy, its traditional relations as fundamental innovations, establish and develop basic institutions of post-industrial information economy, in which, under the impact of innovations, the integration of different scientific fields into one productive force takes place. These positive results of the interaction between traditions, innovations and institutions are multiplied by competitive environment, intensifying systemic

effects, including synergistic ones, and innovative potentials of economic entities, consolidating them into one unique transformation resource of the entire national economic system.

On the other hand, interaction of traditions, innovations and institutions in some specific sense destroy fractal qualities of a national economic system. They account for the change of the types of economic imbalances, in the result of which breaches in traditions of already existing system and communication structure occur. This happens, particularly, in the periods of dynamic transformations and diversifications of ownership in the forms of its nationalization or privatization, due to the appearance of new objects, actors, and procedural forms of innovative relations in a national economic system. These innovations are accompanied by serious systemic changes in the structure of business, power and society institutions, in the forms of their interaction, transformation and diversification that causes the growth of dissipative and other types of expenses, complicates the functioning of the national economic system, and sometimes even leads to its destruction. In this regard, there is a constant objective necessity for the elaboration of mechanisms of institutional support for stimulation and protection of creative properties of these processes, particularly innovative ones, prevention and easing their destructive systemic effects.

Conclusion

Variable-based modeling of institutions diversification in the traditional and innovative development of national economic systems reflects objective processes that occur in a real sector of the national economy of Russia, primarily in the sphere of material production.

The sphere of material production in Russia is undertaking a particularly difficult period. The destruction of old institutions that are to govern production activities and the lack of new effective institutions had the most negative impact on material production of the economy. In most cases, production in Russia is complicated by climatic conditions, large capital investments that reduce its competitiveness. Some of Russian industrial enterprises that have survived are under strong pressure from global competition and the current financial crisis. Nearly all businesses in the sphere of material production need a serious support, including institutional one.

Business systems have been successfully adapting to a new diversified institutional environment at a micro level of a national economy and still continue to change themselves. The logic of these changes is shown in Figure 3.

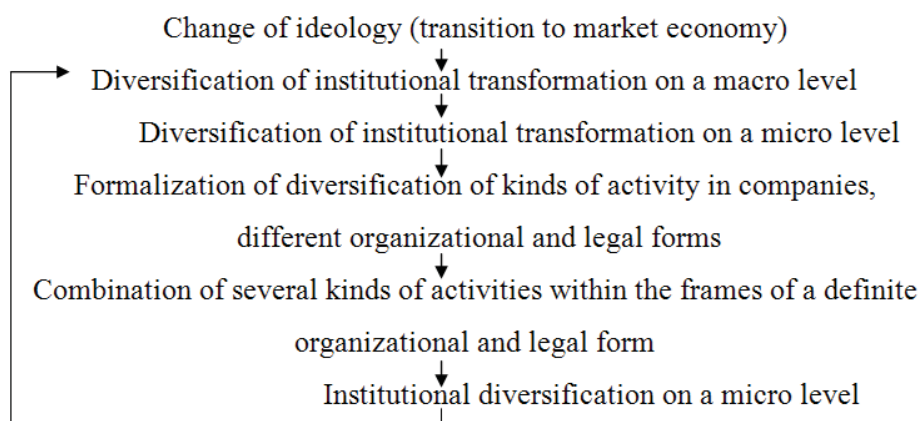


Fig. 3. The logic of institutional diversification of national economic systems

Privatization resulted in the fact that many state enterprises became privately owned, that legislation acquired the form of joint stock companies of various types – public, private, limited liability, etc. Market environment, regulations and traditions, innovations and investment, worked out by the “ideology of the market” dictate the need for rapid adaptation in a competitive environment. Enterprises are merged, absorbed, carry out geographical diversification, which often happens beyond the national economy. As a result, such institutional diversification, when the economic system at the same time belongs to different institutional fields of national economies, takes place. This is especially true for multinational corporations, which extend their activities all over the world. At the same time the economic system has two alternatives: either to align their overseas subsidiaries in accordance with the parent field, or accept institutional pluralism. It should also be noted that in the case of expansion of economic activities in other countries or regions with very different laws, a certain level of institutional diversification does not yield to elimination due to obvious reasons (though some transnational corporations are able to exert some pressure on law-making bodies of various states). Consequently, only non-formal institutions which actually constitute a corporate culture, succumb to direct influence and control.

Institutional diversification, as well as traditional and innovative diversification of economic systems development, is of a controversial character. On the one hand, adhering to a strategy of internationalization, there is a possibility to a flexible adaptation to the peculiarities of the economy of another country, but on the other hand, the level of management complexity and coordination of the activities of the economic system that has a strong institutional diversification, increases greatly. These additional managerial expenses are added to “traditional” expenses spent on the management of a diversified economic

system, which reduces the efficiency of the economic system.

One may ask the logical question whether there is always an institutional diversification in any kind of diversification, not even having a geographical expansion as its basis. A positive answer to this question is explained by the fact that with the help of diversification of their economic activities in other areas, the economic system is faced with various institutions, groups of businesses entities that belong to different institutional fields. For example, codes of business conduct in one sector of economy, represented by a set of enterprises, will differ from those in other sectors of the economy. Any TNC is characterized by a high degree of trust among business partners, whereas the market of banking and insurance services – a very low degree of confidence. Besides, the rules, governing certain activities, differ from similar regulations, governing other activities. The transition to a market economy model has led to a variety of changes in the institutional sphere: new institutions appear; old institutions vanish or change their forms. We believe that the dominant role in the transformation of institutions in Russia is played by the change of ideology, which in its turn gives rise to new institutions. The transformation of institutions causes a variety of ways of economic activities, types of specialized or diversified production, which in its turn take a variety of legal forms. There is a diversification of micro business systems – there are concerns, conglomerates, corporations, alliances, cartels, syndicates, vertically integrated companies. Moreover, the degree of institutional diversification depends on many factors. Diversification of economic system activity generates the diversification of institutional fields, owned by the company. If diversification is based on mergers/acquisitions, then this degree will be more than if diversification is based on organic growth. This is due to the fact that the absorbed company has already formed its own corporate culture, traditions,

customs, standards or codes of professional conduct. Joining the structure of a new company in this case, will be more painful, and the greater the difference in institutional environment, the less effective it may be the diversification, which is being carried out. In the case of organic growth, the company itself creates a corporate culture of the new company, which minimizes the difference between the institutions. However, even in this case it will not be possible to avoid institutional differences between the two firms.

The reason for this is that each activity is governed by certain “tough” institutions (laws, regulations, state standards), which can be applied only to those activities. Conventionally, a set of tough institutions that regulate the activity of a diversified company can be divided into general and specific. Common tough institutions apply their laws to all types of activities, which are compatible within the frames of the company; specific “tough” institutions, as shown in Figure 4, carry out control over only one type of activity.

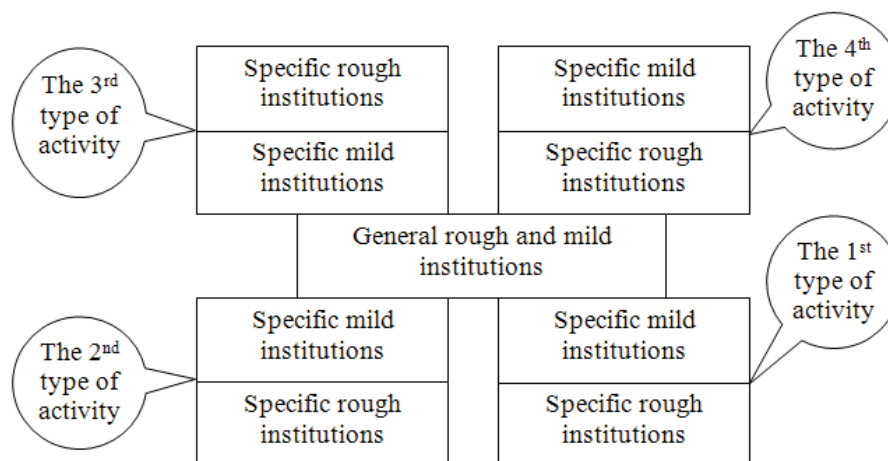


Fig. 4. Institutional diversification in the frames of business diversified systems

Thus, the analysis of diversification of institutions in the process of traditional and innovative development of national economic systems has shown that in a national economy general and specific laws and rules of transformation and diversification of traditional and innovative institutions of business systems are presented and realized at all its levels. The initial impulse for these processes was given by the transformation of forms of ownership and formation of market ideology, which correspondingly caused a change in all institutions of the society. As a consequence, this led to the transformation and

diversification of economic systems themselves, which resulted in the appearance of enterprises with various organizational and legal forms. Institutional reforms in Russia's economy, their efficiency and substantive content, express the need for further major changes in almost all its branches and local entities. We believe that the focus of these reforms should be shifted towards the creation of favorable conditions for the formation of optimum traditional and innovative institutional structures and prospects of the national economic system development in all levels and spheres.

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