

Role of Centre: Studying the Development of Whole Societies

PART A: CONCEPTUAL BASIS OF NEWCASTLE BUSINESS & LAW

Business and Law forms part of the social science enquiry into how legally-politically, economically and socially beneficial exchange is organised for the development of society. As shown in Figure 1, Business and Law combines three core branches of social science study (economic, political-legal and social), anchored by an overarching research question of what explains the differential growth and development of societies across time and across geographic space. The framework cascades from a central theory of institutional change, or the development of whole societies, which defines the key relationships linking individuals, organisations (including political parties, governments, firms, families), institutions (formal and informal ‘rules of the game’) and the long-run economic evolution of societies. The three branches of analysis are delineated by theories to explain the main forms of exchange conducted by societies: political-legal, economic and social.

FIGURE 1 – New Institutional Economics: Three branches of analysis

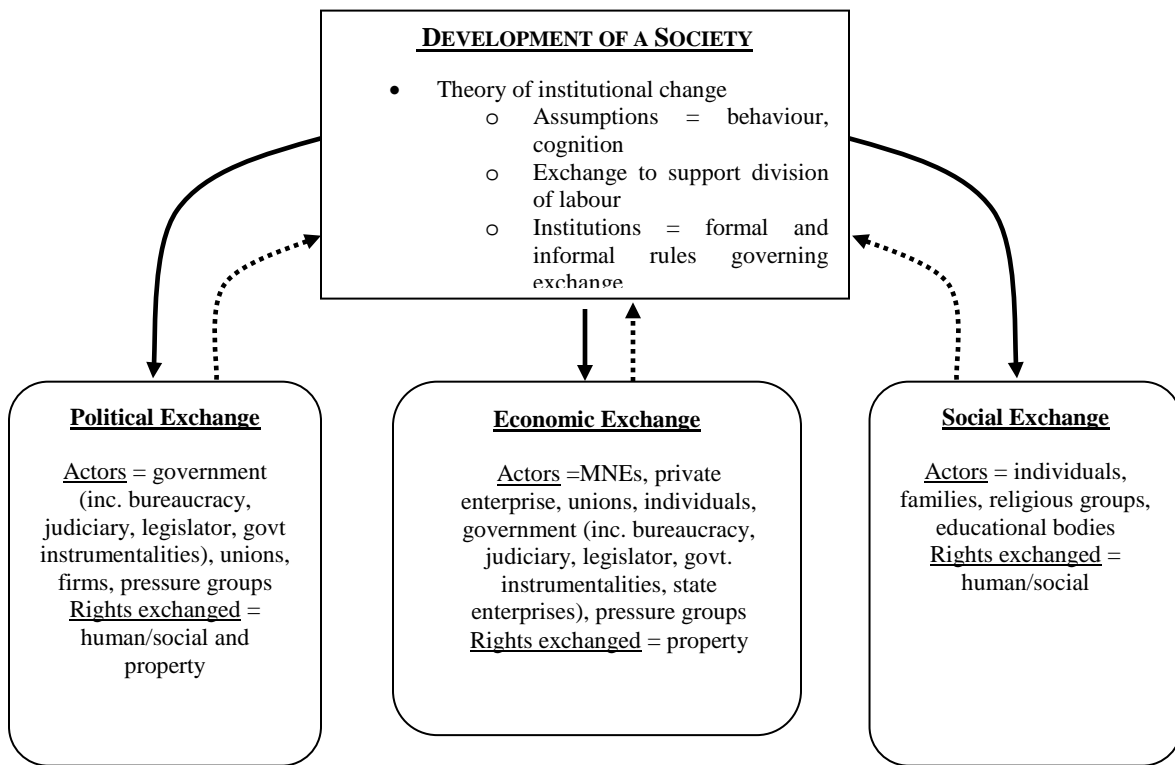


Figure 1, is the necessary counterpart to the specialisation of labour, including corresponding innovations in technology, which facilitates improvements in living standards. The property rights system provides the incentives for economic activity and the allocation of productive effort.

Societies generate formal and informal institutions to provide certainty and structure to human interaction by inducing – or incentivising – co-operation and co-ordination of effort. The assumption underpinning human behaviour in organisations arises from the view that individuals have limited and differing cognitive abilities and integrity. Coincident with these cognitive limitations is the ability of individuals to exercise choice or freedom of will in electing among a range of behaviours. The acknowledgement of conscious choice of behaviour introduces not only opportunism as a variable but also tactics, strategy, honesty, openness, trust and reputation.

The extent to which individuals are able to choose different types of behaviour is influenced by the context within which they make decisions. Behaviour may be conditioned by social structures, such as kinship ties, status or religious beliefs, or limited by coercive pressures, such as convict labour or slavery. Each of these behavioural influences forms part of the wider institutional environment (or rules of the game) that structure all human interaction. Functioning either as informal or formal constraints, institutions limit the choice set of individuals. Formal institutions encompass political, judicial and economic rules, such as legislation, common law decisions, and government competition and welfare policies. Informal institutions are the conventions or codes of behaviour in a society, including religious rules governing food consumption, respect for the elderly and sharing of common resources among indigenous communities.

At any point in time, the institutional environment – the sets of formal and informal rules held and enforced by a society – defines the organisations that will be viable. Firms and political parties are two such organisations. Organisations are the players of the game, ranging from political bodies (such as the organs of government, regulatory agencies and political parties), economic groups (including firms and trade unions), to social bodies

(such as churches, clubs and educational groups). As players, organisations form, shift and, sometimes, decay, in response to the opportunities created by institutions. Organisations in turn mould changes in the rules of the game in a complex process of institutional evolution. The big questions for business and law research include:

- how is economic activity organised economically and socially within firms and between firms and other economic, social and political organisations?
- how do political parties and governments make and enforce formal laws that contribute to growth, welfare and (in)equality?
- what is the nature of firm-state relations?
- how do firms impact on global and domestic competition
- what role do governments, politics and business play in globalisation.

A Centre for Institutional Performance would:

- support policy makers in understanding how policies, regulations and laws (from deregulations to new forms of partnerships between for-profit and non-for-profit actors) translate into the creation, evolution, operation and performance of organisations;
- help managers in the business, legal, government and non-governmental sectors assess and improve the performance of their organisation;
- contribute to the understanding and operation of organisations within their institutional settings, including the role of trust and cooperation in societies; the responses of households, firms and communities, especially in transitional economies, to institutional and organisational change; understand the management and regulation of financial, political and economic organisations; and examine the case for deregulation of public utilities and the health sector and the operation of public-private partnerships