International impact on internal institutional structures

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Third WINIR Conference
"Institutions and Human Behaviour"
Boston, USA, 2-5 September 2016

Abstract. Diverse institutional structures shape human interactions and encourage different social and economic actions. While this seems to be largely accepted, the main challenge today is how effective and economically efficient institutional structures can be established. In order to develop the constructive analysis of institutional change, we need to first introduce a concept, that of the 'human factor', that is responsible for the specific character of each national institutional structure which forms the incentive system of an economy. The goal of this paper is to present the evolution and change of institutional structures by studying, in particular, the international impact on this process. On one hand, it leads us to present globalization as an institutional process which has generalized the formal institutions of capitalism on a global scale, but which has ignored the role of the local human factor. On the other hand, taking into account the role of the human factor in institutional change allows for the development of more optimistic views of globalization. Thus, the international impact on internal institutional structures can be both destructive, reducing its effectiveness, and constructive, modifying its economic efficiency.

Keywords: institutional structure; institutional change; human factor; formal and informal institutions; economic efficiency; globalization.

1. Introduction

International impact in the era of rapid globalization is inevitable and national institutions have been also affected by this process. In order to understand how institutional structures are altered by external influences, the central challenge is, above all, to explain the fundamental aspects of the process of institutional change. To begin with, the concept of the 'human factor' is developed in this paper in order to emphasize the contrast between existing methodological foundations of institutions and their unrealistic character, which are inadequate for analysing institutional change. The notion of the 'human factor' is associated with the particular mentality of a given group of people, their way of living something common. This concept derives from the 'common factor of community' described by Schmoller (1902), and in the sociological and economic literature, it can be compared to the 'social stock of knowledge' (Berger and Luckmann, 1966), to 'shared mental models' (Denzau and North, 1994; North, 2005; Zweynert, 2006) or to the 'belief system' (Mantzavinos, North, Shariq, 2004). The human factor, however, is more complex. It is connected to the community of people within which many generations of interactions between individuals, structures and environments have developed a common outlook on life. The human factor is particularly influential inside of the group, becoming weaker outside of it. It determines all institutional constructions of the human group. As such, this concept is central to the analysis of institutional change.

Introducing the human factor into the general model of institutional transformation allows us to better represent the evolutionary nature of institutions, often emphasized by old and new institutional analysis in economics (e.g., Veblen, 1899; Commons, 1925; North, 1990, 2005; Rutherford, 1996; Greif, 1998; Hodgson, 1998, 2006; Mantzavinos, 2001; Ostrom, 2005). The model presented in this paper aims at capturing the uniqueness, historicity and coherence of institutional structure, stressing the omnipresence of the human factor in the institutional set. As a result, aspects that influence institutional change can be introduced in this model in order to reconsider their effects, taking into account the human factor.

In this perspective, this paper addresses the impact of globalization on internal institutional structures. The concepts of 'Import of Formal Capitalism' (IFC) and 'Human Factor's Global Transformation' (HFGT) are created to distinguish two opposing and qualitatively different approaches to institutional change implemented throughout modern history. By examining some historical events, from the institutional changes in Western Europe to the transformations in socialist societies, this paper characterizes two distinct processes in order to observe changes in different institutional structures influenced by international economic relations.

The globalized economy is often criticized for the universalization of liberal capitalist institutions and for the elimination of cultural diversity (e.g., Strange, 1996; Giddens, 2000; Chang, 2002, 2005). Indeed, the institutional globalization of capitalism is a real process that particularly marked the second half of the 20th century. However, by focusing the analysis on the human factor, this paper argues that the diversity of national institutional structures is not destroyed, a line of reasoning consistent with modern institutionalists, who emphasize the varieties of capitalism (e.g., Amable, 2003; Campbell, 2004; Boyer, 2005; Hodgson, 2015). Moreover, economic globalization may have a constructive impact on institutional structures, if the human factor is placed at the heart of the analysis. By facilitating direct contact between the representatives of the different human factors, globalization can stimulate the evolution of those social norms which lead to unproductive behaviour, towards institutions that incite productive actions.

This paper is organized as follows. The next section presents the concept of the human factor, comparing different methodological approaches to the analysis of institutional change. The following section considers a general model of institutional evolution, while integrating the human factor into the core of this process. The forth section addressees the question of institutional globalization and distinguishes two main processes, accounting for and ignoring the human factor, of the global extension of capitalism. The fifth section argues that the attributes of economic globalization may have both a destructive and a constructive influence on national institutional structures by affecting economic performance differently. The last section concludes by drawing the attention of international actors to the role of the human factor.

2. Role of the 'human factor' in the process of institutional change

Different approaches of institutional change are associated with the methodological debate over individualism versus holism as well as how the individual is represented in the social sciences.

Methodological individualism focuses on individual human action and explains social phenomena as resulting from the actions of individuals. By contrast, holism emphasizes the influential role of society and explains the behaviour of individuals by social laws, purposes and forces.

The opposition between methodological individualism and methodological holism in the social sciences in general, and in economics in particular, can be seen as the opposition between the concepts of *homo economicus* – rational and asocial – and *homo sociologicus* (Elster, 1989) – entirely subordinated to social structure.

The model of man called *homo economicus* supposes that individuals, often represented as atoms, are independent, homogenous and act rationally, according to utilitarian principles. Thus, their behaviour can be aggregated in order to identify regularities. Their actions are not determined by their particular social structure, but rather, they create this structure themselves. As such, they are able to establish efficient social rules and norms that are

necessary for people's individual objectives and interests. As Tony Lawson (1997: 159) points out, in the tradition of methodological individualism, institutions and institutional change are explained by 'deducing them from, and only from, conjectured principles governing the behaviour of actual individuals'.

Therefore, following this tradition, institutional change can be presented as the rational process of adoption of particular institutions. Since the 1980s, this approach has been largely promoted by International Institutions such as the IMF and the World Bank. 'Good institutions' are presented by Ha-Joon Chang as Global Standard Institutions (Chang, 2005, 2011) among which the existence of a legal system that promotes free contracts, private ownership, a shareholder-oriented corporate governance, and a political system that restricts arbitrary actions of political rulers and their agents are frequently mentioned.

According to this approach, a country should adopt 'good institutions' in order to improve its economic performance because they have been proven to be efficient in economically advanced countries. Thus, homogeneity and rationality of economic agents, and the priority of their actions for the process of institutional change, are key elements of this program adopted by a strictly neoclassical school. Malcolm Rutherford (1996: 43) claims that within the program called New Institutional Economics, some analyses of institutional change are clearly pursuing reductionist method. For instance, according to Rutherford, Harsanyi (1968) argues that individual objectives and interests create and transform institutions, while North and Thomas (1973) adopt the efficiency approach, claiming that institutions can be selected by agents from a given rule set. Modern neoclassical approaches have built their policy recommendations on this basis. Once the linkage between institutions and economic growth is recognized (e.g., North, 1990, 2005; Acemoglu *et al*., 2001, 2005; Hodgson, 2006), and the good institutions are determined (e.g., Kaufmann *et al.*, 1999), it is possible to introduce effective institutions and to move from one institutional set to another in order to improve the economic performance of a country.

In contrast to this asocial and ahistorical explanation of the real world, holist traditions emphasize the importance of history in constructing the particular character of a social group. From this perspective, first developed by Durkheim (1893), individuals are seen only as members of a group, which determines their values, ways of thinking and acting. Individuals are products of their cultural and institutional environment and their immediate decisions cannot change their social structure. According to Mark Granovetter (1992:5), Wrong (1961) considers that man is often characterized by sociologists as being extremely sensitive to the opinions of his peers and therefore automatically following commonly held behaviour norms. Even if Granovetter judges this definition to be exaggerated by the critics of "over-socialized" conceptions of man, he nevertheless agrees that individual actions are subordinated to social structure and thus cannot be analyzed as "under-socialized" actions of individuals pursuing their self-interest.

The holistic conception of human action opened the way to the cultural explanation of institutional change, as opposed to the idea of universality of institutions. In this perspective, culture is considered as an almost immutable force and the institutions that arise from the cultural beliefs of a group are thus, also immutable. Called the 'fatalistic approach' of institutional change by Chang (2011: 494), it supposes that institutional structures inherited from the past completely determine the 'course of the history.'

According to Marxian analysis, individual actions are dominated by the culture of social classes and individual consciousness is determined by the social structure (Marx, 1859). Functionalists (Spencer, 1862; Parsons, 1951) compare the social world to the living organism where all institutions, like organs, have their specific functions. Parsons argues that culture is integral to society; it includes language, symbols and moral principles that allow people to

communicate and that are transmitted via the family. Thus, they evolve according to the specific needs of society and totally dominate individuals.

Even if we agree with the functionalist position that all institutions are integrated within a system and that a change in one will trigger a change in another (see Section 3), the role of the human being dissolved in the complex system also seems reductionist.

However, although the holistic conception has been integrated in much of institutional analysis, from Old Institutional Economics to modern institutional approaches (see below), it is nevertheless rare to find it in its most extreme form – completely excluding the role of human decision-making in the process of institutional change.

To begin with, there is actually no extreme position, even in the concept of the "over-socialized" man, who 'follows customs, habits, or norms automatically and unconditionally' (Granovetter, 1992). Attributed to sociological studies (Wrong, 1961; Granovetter, 1985, 1992), this concept has never been developed as a subject matter within the social sciences, but rather, in order to contrast with the idea of the "under-socialized" man, a concept which has been overexploited in economic theories.

Contrary to what one may think, most institutional theories are based on the idea that individuals have an active role and are responsible for change, but their actions are conditioned by their social and cultural environment. As Granovetter (1992: 5-6), usually considered to be a holist, pointed out:

> This 'oversocialized' view resulted from an attempt to compensate for the *neglect* of social effects in the utilitarian tradition, whose view of the economic action I would call 'undersocialized.'
> I attempt in my work to thread my way between under and over-socialized views, by analyzing how behaviour is embedded in concrete, ongoing systems of social relations.

Indeed, many holists accept the role of individual action and some individualists do not claim that all social factors must be eliminated. According to Rutherford (1996: 36):

> This opens up a methodological middle ground where it is recognized that the social whole is more than a simple aggregation of individuals, and that the social context influences and conditions individual behavior, while at the same time insisting that "full" explanations in social science should contain a specification of the mechanisms through which individual behavior generates the social phenomena in question.

In the French school of sociology, Pierre Bourdieu (1987) developed an approach called 'structuralist constructivism.' Based on the concept of *habitus*, his explanation of the complementarity between structure and the individual arises from the process by which structures are internalized by agents, who in turn affect social structure by entering into social relationships. More recently, this recursive connection between structure and agency has been emphasized by Dupuy (2004) in his 'complex methodological individualism' which accepts the autonomy of individuals but acting within the complex social system.

In British sociological research the debate between Giddens's (1979) theory of structuration, Bhaskar's (1979) Transformational Model of Social Action and Archer's (1995) morphogenetic approach has influenced the methodological approach in economics (Lawson, 1997, 2003) and other social sciences (Mole and Mole, 2010). Despite their differences (see Bhaskar, 1993; Archer, 1995; Lawson, 1997) that are not even entirely clear, each is concerned with the interaction between individuals and social structures.

Considering the analysis of institutional change, the concept of the active human agent, influenced by the structure, is integrated in the Old Institutional Economics (e.g., Veblen, 1898 -1923; Commons, 1896 - 1950)[1] and clearly encompassed in most modern institutional

[1] For a discussion on the methodological approach of Th. Veblen, J. Commons and other representatives of the Old Institutional Economics see for example Rutherford (1984, 1992), Vanberg (1989), Hodgson (1989, 1992).

theories (e.g., Hodgson, 2004; Acemoglu, 2005; Chang, 2005; North, 1990, 2005; Ostrom, 2005). Following this methodological approach, we propose to integrate the relationship 'individual – structure' into the concept of the 'human factor' and to analyze institutional change from this perspective.

In his work *Social Politics and Political Economy (1902)*[2], Gustav Schmoller pursues the historical analysis, pointing out:

> The national economies of the English, the Germans, the Greenlanders, the Africans, the Chinese, these are the real designations, it is not the sum of economies of individual persons on the same territory governed by the same authority, but the whole, which parts, in all relationships, react to one another differently than they react to the individual economies of other States, other populations. And this common factor that links all particular institutions of the population or the State, it is not only State, it is something more intimate: it is community of language, history, memory, customs, ideas…it is a common way of living[3].

This common factor described by Schmoller is not related to a particular place or to a specific formal structure. This factor is human; it is connected to the community of people living something common together. Likewise, the human factor is community-specific: that which is important within a particular community will not be so powerful in its relationships with other communities. Individuals will be particularly affected by the 'whole' inside of their group and less so outside of it.

The human factor is neither the individual that we can meet, nor is it the structure with established laws, government, rules, and norms. As Russian sociologist Alexandre Zinoviev (1995) suggested, it is 'human material'. The individual is endowed not only with universal qualities, such as the preoccupation with self-interest, but also with qualities proper to his group. The human factor is the result of the interaction 'structure-individual' over a period of time spanning many generations; it is the particular mentality of the group. Zinoviev (1995: 41) described this interaction as follows:

> The particular character of a group is a complex set of traits that manifests itself regularly and clearly in the collective actions of the individuals that compose it. These features are unlikely to be concentrated in its isolated representatives. They are scattered in the multitude of individuals that all represent different traits. It is when they are gathered together that some kind of behaviour emerges like variations on the general theme[4].

The central features of a specific society, its particular traits that differentiate it from others, form the human factor that defines qualities proper to the individuals of this community. Guided by 'universal and proper qualities,' individuals act and change the 'human factor' of future generations. Thus, a new modified human factor emerges but it resembles the previous one because it arises from it.

The concept of the 'human factor' can in part be compared to the notion of 'social stock of knowledge,' formulated by Berger and Luckmann (1966: 56) as follows:

> My interactions with others in everyday life is constantly affected by our common participation in the available social stock of knowledge…Participation in the social stock of knowledge permits [some understanding] that is not possible for one who does not participate in this knowledge, such as a foreigner… A social stock of knowledge is constituted and transmitted from generation to generation and is available to the individuals in everyday life.

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[2] French Edition "*Politique sociale et économie politique (Questions fondamentales)*" published in 1902 in Paris, V. Giard & E. Brière, Libraires-Éditeurs. Translation from German to French was reviewed by G. Schmoller.

[3] Schmoller (1902: 44), translated from French by author

[4] Zinoviev (1995: 41), translated from Russian by author

However, the fact that social knowledge is accumulated in the particular human group and is not really attached to a geographic space, though influenced by it during the process of accumulation, is not evident in Berger and Lackmann's construction.
Yet the human factor, as a quality proper to the particular community of people, doesn't disappear if the community changes place, even if it is modified by the new environment which will transform the human factor of future generations. The human factor of a particular society results from the interconnection between the social whole and the individuals of this society in the past. Consequently, consideration of the past human factor and history is essential in order to understand the present human factor.

How can we integrate this concept in the analysis of institutional change?
Indeed, the human factor, as a result of the transformation of shared mental models in a particular human community and of change in the real environment, determines all institutional constructions within the group. The human factor plays an essential role in the process of institutional change by determining the unity and the uniqueness of institutional structures.

3. The human factor as a fundamental link in the process of institutional evolution within human communities

Following the arguments of old and new institutionalists in economics, we can construct the general model of evolution of institutional structures, introducing our concept of the human factor to this model.

First, institutional structures are inherited from the past. Thorstein Veblen (1899: 191), for example, presents institutions as 'products of the past process' describing them as 'a conservative factor.' Douglass North (1990: 94, 118) emphasizes the role of path dependence in the institutional change and concludes that institutions 'connect the past with the present and the future so that history is a largely incremental story of institutional evolution.' Avner Greif (1998a) argues that historical institutional analysis is needed to understand the nature and performances of contemporary institutional structures because they are products of an historical process. Geoffrey Hodgson (2007: 327) criticizes many new institutionalists for focusing on the "state of nature" instead of analyzing the "process and development", underlining the importance of past institutions for present institutional structures.

Second, the institutional heritage shapes the actors' initial interpretation of reality. This primary insight will evolve with individual experiences that actors have during their lifetime. Thus, as North (1994, 2005) argues, the initial structure forms individual mental models to explain and interpret the environment; these models will evolve by reflecting the feedback derived from new experiences. The experiences are obtained by individuals from their interactions with the environment, with other actors and even with ideas. According to North (1994: 363; 2005: 25):

> The mental models may be continually redefined with new experiences, including contacts with other ideas.

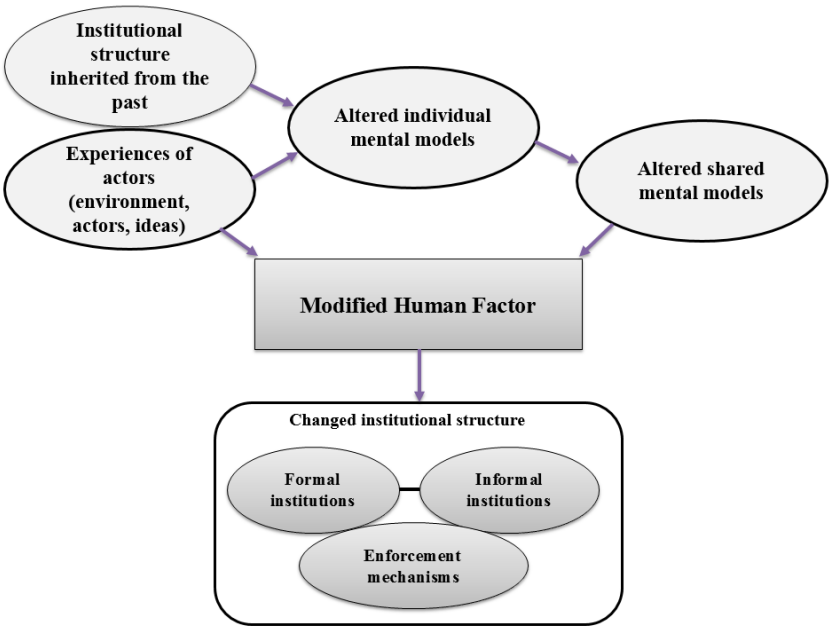
Third, individual mental models will be rather similar if the actors have the same institutional heritage and comparable experiences. Furthermore, modified as a result of contact with the actual environment, these individual mental models will respond to reality more adequately by becoming shared mental models in a given community. Hodgson (2006: 7), discussing the way institutions interact with individuals, similarly points out that 'institutions depend for their existence on individuals, their interactions, and particular shared patterns of thought'.

Taken together, the altered environment, individual mental models and shared mental models form the new human factor of the community, enriched by new experiences but still

containing the core substance created by past experiences. This substance does not disappear but mutates, integrating new elements. Finally, this vaster and richer human factor will determine new institutional structures, more compatible with it, that will orient individual actions differently and will create heritage for future generations. Thus, the source of institutional change can be found in the 'exploration of interrelationship between the evolving beliefs systems and their social contexts' (North, 2005: 36). However, even if changes in the real environment can be very fast, the modification of the human factor and thus institutional structures is slow because long-term historical evolution is rooted in the deepest layers of this construction.

As discussed above and using the largely accepted definition of institutional structure proposed by North (1990) (that is, the combination of formal rules, informal constraints and their enforcement characteristics), it is possible to summarize the complex process of institutional evolution in the general model presented in Figure 1.

Figure 1. General model of institutional evolution
Source: Author.



Institutional structure should be considered as a coherent entity where components are interconnected and complementary. Both formal and informal institutions as well as enforcement mechanisms reflect the human factor – the particular mentality of the community formed by many generations of institutions and experiences, by many historical modifications of mental models. This common factor represents the important link between formal, informal and enforcement institutions, creating the coherence of the structure. If the cohesion of the institutional whole is not respected, the total structure does not function. As Greif (1998a: 82) has rightly pointed out:

> Society's institutions are a complex in which informal, implicit institutional features interrelate with formal, explicit features in creating a coherent whole. These interrelations direct institutional change and cause this institutional complex to resist change more than its constituting parts would have done in isolation.

Enforcement characteristics, often integrated in formal and informal institutions, are nevertheless an important component of the structure that derives also from the human factor

and evolves with it. For example, in one community the circumvention of or disregard for the law can be condemned by the community, thus affecting one's reputation and honour, and/or leading to ostracism and legal sanctions. By contrast, in other communities, it could be considered as a form of ingenuity and resourcefulness leading to weak social and legal punishment.

Formal institutions can be defined as written rules that control human interactions in a society, determining legal rights and obligations. North (1990: 47) classifies political rules, economic rules and contracts distinguishing them from general rules, such as constitutions, national and common laws, and particular individual contracts. Redmond (2005: 665), using the definition of '*formal'* from the *Oxford English Dictionary,*[5] characterizes formal institutions 'by purposeful attention to validity as well as explicitness with respect to rules and consequences,' by tangible ways of expression, such as charters or bylaws, and by the power of central authority to set and control them. Hodgson (2015: 9-13) similarly argues:

> Laws, in the fullest sense, necessarily involve both state and private or customary arrangements involving an institutionalized judiciary and a legislative apparatus. …They are backed by authority and have the perceived legitimacy of sovereign power. Transgressors face possible punishment… Law is developed by organs of the state, including judges and legislatures.

Hence, the essential characteristics of formal institutions are explicitness and legitimacy. In order to ensure these conditions, authorities set, support and control them, using tangible supports. They are created by human actors (Hodgson, 2000) to direct the behaviour of all members of a given society and their main function is to produce predictability or reduce uncertainty and to guarantee order (North, 2005). However, this role will be fulfilled only if everybody (or almost everybody) respects written rules. But law-following behaviour is not automatic. Two conditions are needed to establish an effective legal system of rights and obligations. First, as noted earlier, the authority must control the rule of law and sanction its violation. Whether or not the rules are respected will depend on the response that individuals receive for their actions. For example, if sanctions for violation are not systematically applied or are not very penalizing, the respect of laws will not be guaranteed. Effective third-party sanctioning is needed in order to ensure order and reduce uncertainty. Nevertheless, if written rules are not largely embedded in the social consciousness of the community, the punishment can provoke opposition. Thus, the second condition for the existence of effective formal institutions is their compatibility with the human factor of the community. In this perspective, John R. Commons (1925: 381), underlining the role of law in economics, pointed out that 'common and statute laws were first local customs and expectations before being standardized by legislative acts and constitutions'.

This is not to deny that multiple interest groups influence legislators and the process of law making, but to emphasize, as an important characteristic of formal rules, their coherence with norms and values shared by members of a given society. Hodgson (2006: 5) rightly points out that 'people obey laws not simply because of the sanctions involved but also because legal systems can acquire the force of moral legitimacy and the moral support of others.'

Social norms, conventions and ways of thinking form a complex structure of informal institutions. They directly express the human factor of the community. Informal institutions are the most controversial part of the institutional structure. First, it is difficult to identify and to describe them. Second, the distinction between different types of informal institutions, such as conventions, norms, rules, constraints, or habits, has incited many debates in institutional

[5] Definition used by Redmond (2005) from *Oxford English Dictionary*: 'Done or made with the forms recognized as ensuring validity; explicit and definite, as opposed to what is matter of tacit understanding'.

analysis (e.g., Hodgson, 2006). Yet almost all institutional analysts agree that informal institutions are of great importance.

Often associated in Veblen's analysis (1898) with ways of thinking and doing, with habits of thought and action or with social norms (for differences between Veblen's concepts see e.g., Rutherford, 1996; Hodgson, 2004), informal institutions are defined by North (1990) as 'codes of conduct, norms of behaviour, and conventions'. Hodgson (2006, 2015), while criticizing the widely used distinction between "formal" and "informal", still agrees that 'norms of culture and conventions' (2015: 9) are important. Following the distinction of rules made by Rutherford (1996: 52-53), Mantzavinos (2001) has classified informal institutions in three categories according to their enforcement characteristics: conventions, moral rules and social norms. *Conventions* are self-policing, particular rules, such as traffic rules, forms of contracts or languages. *Moral rules* are controlled by individuals themselves and have a universal character, including keeping promises or telling the truth. *Social norms* are enforced by other group members and do not have a universal character. According to Rutherford, the violation of social norms is generally punished by criticism and even ostracism but may also trouble the consciences of individuals themselves. As Rutherford highlights, social norms are multiple and varied.

> Norms can cover everything from core attitudes and beliefs to apparently minor points of etiquette and dress. Some social norms can be seen as solutions to problems of social coordination and cooperation, but many others are intimately bound up with matters of group identity and social status (Rutherford, 1996: 53).

In philosophical and sociological studies, social norms are often presented as customary rules of behaviour and conventions are presented as regularities in behaviour, observed in a group (Lewis, 1969; Coleman, 1990; Bicchieri, 2006). Despite their differences, each type of informal institution can be regarded as a "norm" in the sense given by the Cambridge dictionary: 'an accepted standard or a way of behaving or doing things that most people agree with'. In other words, in a particular social group, norms represent what is considered 'normal' for the majority of its members and thus norms are shared beliefs rooted in the human factor of the social community. Thus, in order to produce coherent and effective institutional structure that guides individual actions, change should start by the modification of shared beliefs and the human factor of a given society. Rapid change of formal institutions without the necessary evolution of norms will produce either ineffective 'empty formality' (Redmond, 2005: 677) if punishment for infringement is not harsh, or strong opposition if sanctions are overly penalizing, affecting all spheres of the society. North (1990: 45), analyzing the development of economies, argued:

> The informal constraints that are culturally derived will not change immediately in reaction to changes in the formal rules. As a result the tension between altered formal rules and the persisting informal constraints produces outcomes that have important implications for the way economies change.

Following the process of institutional evolution presented in figure 1, change of shared beliefs presupposes a change in the real environment and the resulting modification of individual mental models. Transformation of the environment, for example, technological progress, political change, industrialization or globalization, through repeated interactions of actors with their new environment, leads to changes in their mental models. According to Rutherford (1996: 65), Veblen clearly indicates that 'changes in norms are often the result of changes in patterns of life that are more or less forced on groups by significant alterations in their technical and economic environment'.

However, the reaction of actors to new experiences will depend on their institutional heritage. The same material change will not produce the same social effects in all societies. The reshaping of mental models depends on the process of learning which is determined by

the inherited institutions and personal experiences. Thus, institutional evolution analyzed over time depends on the accumulated social knowledge of the human group and knowledge developed by the individuals during their own experiences and transmitted within society.

Mantzavinos, North and Shariq (2004: 76) argue:

> Learning is the complex modification of the mental models according to the feedback received from the environment… Individuals in a given sociocultural environment continually communicate with other individuals while trying to solve their problems. The direct result of this communication is the formation of shared mental models, which provide the framework for a common interpretation of reality…

Knowledge is transmitted between individuals explicitly, by means of public productions such as speech, gestures, writing, and images, or implicitly without public representation. It can also be communicated by observing and imitating the behaviour of others (Sperber and Hirschfeld, 2006). During repeated interactions, the same "information," in a broad sense, is communicated many times, changing individual mental models progressively over time.
Similarly, Guy Bensimon (1996: 48) argues that individuals influence each other through the 'vehicle of social relation', such as speech or gesture, in the same way that the individual attributes of objects, when these objects come into contact with one another, are necessarily modified – changing or else disappearing entirely. Thus, repeated interactions between individuals allow, on the one hand, to socially transmit individual mental models and, on the other hand, to change individual mental models of the actors from different human factors.

Therefore, several important conclusions can be drawn from the figure 1. First, institutional structures are formed historically; they are evolutionary sets that form an initial common framework for an interpretation of reality.

Next, structures inherited from the past change through individual mental models that are altered in response to personal experiences, including contacts with other people and other ideas.

Furthermore, institutional structures composed of formal and informal institutions and their enforcement characteristics represent a coherent whole, derived from the particular human factor. The latter is directly perceptible in informal institutions and determines the unique character of whole institutional structure.

Finally, partial convergence of different human factors is possible through direct contact between their representatives and the shared environment. However, this process is slow and the convergence cannot be total, taking into account the influence and importance of different evolutionary ways.

Using this analytical framework, the next sections will focus on the impact of globalization on the change of internal institutions.

4. Institutional globalization of capitalism

Globalization is often limited to the intensification of exchanges of goods and services and the increase of capital flows across national borders, but it is rarely presented as an institutional process that not only removes economic barriers but also deeply transforms institutional pillars of the societies in question. Institutional analysis of globalization can be divided into two main categories: those who criticize globalization stressing the dangers of institutional homogenization, particularly in the area of the economic regulation and the destruction of diversity (e.g., Strange, 1996; Giddens, 2000; Chang 2002, 2005); and those who, by contrast, underline the persistence of varieties of capitalism despite increasing internationalization (e.g., Amable, 2003; Campbell, 2004; Boyer, 2005; Hodgson, 2015). Rare institutional studies emphasize positive progressive evolution of national institutions under the impact of international forces (Djelic and Quack, 2003). However, all institutional

analyses of globalization address capitalist institutions and their performance. Indeed, institutional globalization can be defined, without making value judgments, as a global universalization of the institutions of capitalism.

It is largely accepted that capitalism is a system based on the market economy with central institutions providing economic liberty, private property rights and free competition. Recently, Hodgson (2015) summarized diverse studies and definitions of capitalism, underlining that 'it is a system that dominates our world' (2015: 5) and defining as its key institutions laws supporting private property rights (including private ownership of the means of production), markets involving money, contracts guaranteeing the exchange including employment contracts and financial institutions facilitating entrepreneurship and innovation (2015: 259, 275).

On the other hand, capitalism is associated with specific political institutions. Ludwig Von Mises pointed out (1949: 150 - 153):

> For the sake of domestic peace liberalism aims at democratic government. Democracy is not a revolutionary institution. On the contrary, it is the very means of preventing revolutions and civil wars. It provides a method for the peaceful adjustment of government to the will of the majority…. Because the division of labour requires undisturbed peace, liberalism aims at the establishment of a system of government that is likely to preserve peace, viz., democracy.

According to Hodgson (2015: 349), many contemporary analyses (Maoz, 1997; Mousseau, Hegre, and Oneal, 2003; Gartze, 2007) contested the relationship between democracy and peace, taking into account the fact that several wars occurred between democratic states. However, democracy is often considered as more compatible in the long term with the market economy because both are flexible and adaptive systems. Fitoussi (2004: 48) argues that only the forms of organization in movement can survive and that capitalism has become the dominant form only by means of democracy.

Although more detailed discussion is needed to understand this relationship (see e.g., Acemoglu and Robinson, 2000; Rodrik, 2007, Hodgson, 2015), it is still possible to observe that the countries with a long capitalist history are all characterized by two common pillars: market economy and democracy. Despite different varieties of combinations between private and public spheres, advanced capitalist countries such as France, Sweden, Germany, the UK or the U.S., are all democratic within the market economy. Property rights, individual liberties of citizens, equality of all people under the law, are institutions included in the constitutions or similar documents of these countries. For example, in France the Declaration of the Rights of Man and of the Citizen (1789) defines the right to property as one of four natural rights of individuals that are: liberty, property, safety and resistance to oppression (article 2). They are universal for all men who 'are born and remain free and equal in rights' (article 1). This document, drafted partly by Marquis de La Fayette, one of the protagonists of the American Revolution, is often compared to the American Declaration of Independence of 1776 (Lepage, 1997).

Thus, formal institutions of capitalism ensure on the one hand, market economic institutions, such as private property rights, business and trade freedom, financial and banking institutions and, on the other hand, democratic political institutions, such as rule of law, equal treatment and independent justice that protects individual liberties.

Institutional globalization of capitalism marked the history of the second half of the 20th century. In 1968 only 21 percent of the world's population lived in capitalist countries, mostly in Western Europe, North America, Australia and New Zealand (Wilczynski, 2008). Thirty years later, almost all countries in the world, apart from Cuba and North Korea, have at least attempted to transform their institutional structures in order to create capitalist institutions.

In the middle of the 1960s East Asian countries, such as South Korea, Taiwan, Hong Kong, Singapore and Malaysia, started their programs of economic development relying on market economic institutions. This institutional transformation attracted Asian socialist China and Vietnam from 1979 onwards. In the 1980s, most Latin American countries adopted new institutions, replicating those of advanced capitalist countries. At the same time, all African countries started to turn towards capitalism, embracing market-oriented reforms (Barlett 1990: 343). Finally, in the 1990s, the fall of the Soviet Union triggered a massive institutional transition to the market economy and the adoption of democratic constitutions. Did the process of institutional transformation follow the same pattern in different countries?

Indeed, each country organized its institutional change in a very particular way. However, two main tendencies can be distinguished in the general process of institutional globalization. The first tendency can be called the 'Import of formal capitalism' (IFC) and the second, the 'Human factor's global transformation' (HFGT). Both orientations had the same goal: to establish capitalist institutions in order to improve economic performances because advanced capitalist countries had the highest GDP per capita in the world. Yet the guidelines were different. Using the model of institutional change presented in figure 1, the IFC process started directly with the structure and particularly by 'formal institutions,' while HFGT first allowed the capitalist mentality to be learned by the local population, transforming the human factor.

Latin American countries, for example, have adopted many capitalist institutions by way of their direct importation from advanced capitalist countries, thus implementing the IFC model.

Following the prescriptions of the Washington Consensus[6], largely criticized for its extremely liberal approach, Latin American countries introduced institutions, increasing business and trade freedoms in their legislations. Promoted by international organizations, such as the World Bank and the International Monetary Fund, these recommendations aimed to integrate not only South American but also African and Eastern countries into the global capitalist market. This process is related to the diffusion of 'good institutions' which is defined by Chang (2005, 2011), as noted in the earlier section, as 'Global Standard Institutions (GSIs).

These institutions are typically seen as maximizing market freedom and protecting private property rights most strongly (Chang, 2011: 473).

Apart from economic freedoms, "good institutions" also include political systems restricting arbitrary actions of bureaucrats and other appropriate democratic institutions.

During the 1980-1990s many new laws and new Constitutions were adopted in most Latin American countries. Economic institutions that were created allowed for a reduction in public spending and to manage inflation. However, growth and investment remained weak despite privatizations and deregulations that should have stimulated the economy. Dani Rodrik (2007) emphasizes the decline in the effectiveness of the region, pointing out that economic growth changed from 2.8% between 1960 and 1980 to -0.8% between 1980 and 1990 and to 1% between 1990 and 2003. By contrast, social costs rose with the increase in unemployment and poverty. Consequently, new democracies lost public confidence and a large cross-national survey realized in 1999 in 14 Latin American countries found that the population was particularly pessimistic towards the future (Rodrik, 2001: 8).

Regarding to this process, Roger Barta (2009:14) points out:

[6] The term 'Washington Consensus' was created by John Williamson to characterize prescriptions for reforms promoted by international organizations in the 1980-1990s (see Williamson, 1989).

The importance that was given to the speed and aggressiveness of the modernization and the expansion of capitalism in Latin America must be recognized… The arrival of new tendencies to Latin America has been produced in a blinding way without preparing the society to welcome these changes[7].

From the same perspective, Alvaro Artigas notes (2005: 2) that 'transition to the democracy in Brazil, Argentina, Uruguay, Peru, Bolivia and Paraguay had been decided from the top'. The result was disappointing because, as Barta argues, despite the changes in institutions, Latin American societies did not lose their 'old authoritarian cultures characterized by the "clientelistic" practices, anticapitalistic values and charismatic figures' (2008:16).

Thus, the serious brake on economic prosperity of Latin American countries may be found in the creation of incoherent institutional structures based on the non-capitalist human factor and ineffective capitalist forms imported from other countries. Informal institutions, unsuitable for the imported capitalism, did not incite the capitalist behaviour that was likely to improve economic activity.

Similarly, socialist countries of Central and Eastern Europe followed the IFC model in order to establish their capitalist institutional structures. Most of the market and democratic principles were introduced by new constitutions and laws in the 1990s. Yet new legislative frameworks did not start to guide the behaviours of economic and political actors. Completely incompatible with the human factor of socialist countries, capitalist institutions, misunderstood by the population, became ineffective 'empty formalities' in many socialist societies. As a result, 'systematic non-respect of formal institutions became the norm of behaviour of economic and political actors.' (Nureev, 2001: 21), and, instead of stimulating entrepreneurship and innovation, capitalist institutions provoked criticism and hostility from the population.

By contrast, most Asian countries opted for the opposite model that is called here "Human factor's global transformation" (HFGT). In South Korea, for example, the process of the construction of a market economy and a democratic system had been initiated by president Park Chung Hee's authoritarian and interventionist government in 1961. South Korean sociologist Eun Mee Kim (1997: 35) addressed the arguments of President Park concerning the role of the state in the process of 'economic development in the capitalist manner' (Park 1971, 105). In his book *To Build a Nation* (1971), Park argued:

One of our big problems was the shaky foundations on private industry.... Furthermore, the market structures were not modernized. Consequently, the government had to play the leading role in the development plan, though we knew well that such a plan must, in the long run, rely on creativity and initiative of private industry. (Park 1971, 113)

During the 1960s and 1970s, Park's government created a political and business environment that allowed economic actors to progressively learn capitalist ways of doing. Traditional norms of an hierarchical system based on 'filial piety and loyalty' (Kim 1997: 54) erected in Korea over many centuries, were not suitable for capitalist requirements. A learning period was needed to create the new human factor. The interaction of Korean actors with the new economic environment, still within the framework of an authoritarian system, weakened traditional norms, giving rise to their gradual modification. Tawni Hunt Ferrarini (1997: 280), in reviewing Kim's studies, concludes:

During Park rule, individuals relied on some of their "backward" habits, customs, and norms to act upon and interact in new development-oriented economic environments. This freed up some resources, and agents could direct these resources towards learning and to becoming gradually familiar with new environments.

[7] Barta (2009: 14), translated from French by author

Only after a quarter of a century of changes to the country's real environment and transformations in the South Korean human factor, were market and democratic institutions formally defined in the constitution of 1987, securing 'the right to property of all citizens' (article 23) and political freedoms (article 8). Between 1965 and 1995, GDP per capita in South Korea rose from $105 to $12,403, reaching $25,976 in 2013 (World Bank, 2013). Its annual economic growth rate averaged about 7 percent, clearly demonstrating superior economic efficiency compared to the countries that followed the IFC model. It is interesting to note that modern Korean society aspires to have material success, equality and freedom but has generally negative views about individualism (Fletcher, 2008).

By contrast in China, individualistic beliefs that have been held for a long time, in complete opposition to the traditional Chinese norms, became very popular. Psychologists Rong Zeng and Patricia Greenfield (2015: 48), analyzing different Chinese studies on value shifts, conclude that younger generations in China are encouraged to develop individualistic traits:

> In the new environment, it has become important for children to acquire the individualistic skills of assertiveness, self-reliance and autonomy (Chen & Chen, 2010). Researchers and professionals in China now encourage parents and educators to help children develop individualistic skills that are adaptive in a market-oriented society: self-expression, self-direction and self-confidence (Yu, 2002).

Chinese people, that for centuries followed collectivistic traditions with hierarchical relationships, were 'accustomed to giving, obeying, following authority and even sacrificing to the group or nation'. But in the 20th century, since the Chinese government began to introduce market economic principles in 1978, 'traditional values {were} gradually overtaken by new values' (Zeng and Greenfield, 2015: 48-50). The introduction of capitalist institutions in China was led by the Communist Party, and its leader of the late 1970s Deng Xiaoping focused reforms on transforming the real economic environment. The first step was allowing entrepreneurship, the progressive introduction of economic liberties in state-owned firms and the opening up of the Chinese economy to foreign investment. Then in 1995, after 17 years of changes, the first formal privatization of small and medium state enterprises started in China, growing the private sector. The introduction of formal institutions was slow. The process started by significant modifications to the real environment but still in coherence with the traditional Chinese human factor. Interaction with the new environment affected individuals who were frequently exposed to the novelties, such as entrepreneurs, managers of small and medium enterprises and employees of multinational firms. These individuals created a new generation of human factor with modified beliefs and altered social norms. The formal recognition of private property was introduced into the Constitution in 2004 and the 'framework of property rights protection' was established under Property Law in 2007 (Zhang, 2015). China's institutional change can also be characterized by the HFGT model. The democratic institutions are just at the beginning of their evolution in China and it won't be possible to evaluate the progress before a few or even many years. Despite the incomplete transformation, the country's economic growth has averaged nearly 10 percent per year since the 1980s (Word Bank, 2015). This fact contributes to the assumption earlier mentioned that the HFGT process is more effective and efficient for institutional change. At the same time, human factor transformation is a long and endless process, and it differs from the IFC model in that the duration cannot be determined.

However, globalization is a complex process and global institutional expansion of capitalism corresponds to a period of accelerated economic globalization. Thus, it is interesting to analyze how the latter has affected the former process and how, in general, national institutions can be affected by international influences.

5. Impact of international economic relationships on internal institutional structures

Economic globalization can be characterized by increasing international trade of goods and services, flows of international capitals, the importance of international economic organizations and the global spread of technologies. A large body of literature is devoted to the question of economic globalization (e.g., Reich, 1993; Thompson, 2000; Stiglitz, 2002, Rodrik, 2007). Examining different stages of globalization, different perspectives of studies, driving forces, advantages and dangers of this process, analysts are concerned with the real changes in the world economy since 1945, the period that is often referred to the "second age of globalization." The expansion of international trade and capital flows in the 19th century is often characterized as the "first age of globalization" (see e.g., Findlay and O'Rourke, 2007; WTO *World Trade Report*, 2013).

According to the World Trade Organization (2013: 52), the difference between two ages may be described as follows:

> The 19th-century version was accompanied by only rudimentary efforts at international economic cooperation, the 20th-century version, by explicit design, was built on a foundation of new multilateral economic institutions known collectively as the Bretton Woods system: the International Monetary Fund (IMF), the World Bank and the General Agreement on Tariffs and Trade (GATT)[8]…. The world economy is being reshaped by an even newer wave of integrationist technologies, driven by innovations in telecommunications, computing and the global information networks they have spawned….World trade has been growing even more rapidly than world production…, and a central feature of this second age of globalization is the rise of multinational corporations and the explosion of foreign direct investment (FDI).

Indeed, the annual growth of world trade has averaged more than 7 % between 1960 and 2015, increasing from 25 % of world gross domestic product in 1960 to 60 % in 2014 (World Bank, 2016). Annual flows of foreign direct investment grew from $13,257 in 1970 to $ 1,228,283 in 2014 (UNCTAD *Stat*, 2016) while the number of multinational corporations increased from 7 000 in 1970 to 37 530 in 1990 and 69 727 in the early 2000s (UNCTAD *World Investment Report*, 2005).

A key question here is whether these features of globalization have mostly encouraged the IFC model of institutional globalization or whether economic globalization has triggered the HFGT process.

Economic globalization and the IFC

As noted above, the Import of Formal Capitalism (IFC) is the model of institutional change that was particularly implemented in most Latin American, Eastern European and African countries since the 1980s. With economies focused primarily on their internal markets with trade protectionism, state regulation and subsidies, these countries changed their economic orientation radically. New economic programs were based on the elimination of subsidies, openness to foreign trade and investment and other neoliberal policies. According to Campbell (2004: 163), 'many observers agree that the neoliberal program of tax reform, welfare reform, and deregulation diffused primarily from the United States to the rest of the world, often with strong assistance from international agencies like the IMF, World Bank, and OECD.' But why and how were countries receptive to the spread of economic liberalism?

The first question is directly related to the main features of economic globalization. In 1968 Northern America, Western Europe, Australia, New Zealand, South Africa and Japan accounted for almost 70% of world trade, with the biggest shares going to the European

[8] GATT was replaced by the World Trade Organization (WTO) on 1 January 1995.

Economic Community[9] (26%), the United States (14%) and the United Kingdom (7%) (Wilczynski, 2008). These countries also had the highest level of GDP per capita between $2,350 in the UK and $5,250 in the U.S. (World Bank, 2016). During the 1970s and the 1980s these advanced capitalist countries dramatically increased their openness rate to world trade[10] multiplying at the same time their GDP per capita by five in the U.S. and by ten in the U.K, France and Germany[11].

During the same period, international trade has significantly boosted economic development in East Asian economies, such as South Korea, Taiwan, Malaysia, Hong Kong, and Singapore. For instance, the share of export and import in South Korean GDP achieved more than 60 percent in 1990s, while its GDP per capita changed from $292 in 1970 to $12,400 in 1995.

Furthermore, the inflows and outflows of foreign direct investment in all these countries grew steadily every year and the huge number of multinational corporations created during this period were from advanced capitalist countries. In 1990, 26 percent of MNC were from the U.S., 55 percent of MNC had the country of origin in Western Europe, and 15% in Canada, Australia, New Zealand and Japan.

The process of market expansion from capitalist countries and their obvious economic performances caught the attention of other countries that were struggling with unstable growth and high public debt. Most Latin American countries had very high external debt, due mostly to multinational corporations from the U.S. and Western Europe, such as Bank of America, Ford, and Mercedes Benz and to the International Organizations, such as the World Bank and IMF. International creditors had an enormous influence on the governments of these countries, mostly after the debt crises of the early 1980s when some Latin American countries became unable to pay their debts. New loans were provided from international organizations with conditions to introduce neoliberal policies and democratic governance. Similar reforms were prescribed to African countries with financial assistance from the IMF and World Bank and to socialist countries from Eastern Europe that were financially supported by international organizations in their transition to capitalism.

Neoliberal economic prescriptions have been strongly criticized, as mentioned above, and our aim here is not to examine their consequences but to illustrate different international influences on internal institutional structures. Both neoliberal and democratic programs of international creditors on the one hand and promises of international trade and investment on the other, pushed governments of different countries towards quickly setting up formal capitalist institutions. Many countries transformed their legislations to gain access to the World Trade Organization that provides a framework for international trade and strongly influences countries investment climate.

In Russia, for example, where democracy was introduced in the Constitution over two years (Constitution of 1993) and all economic freedoms were formalized over five years using so-called ‘shock therapy’, all requirements for its accession to the WTO were related to the more closed adaptation of Russian laws to international trade. The question of informal institutions, aside from corruption, was not even raised. Yet the real problem of Russian institutional structure was not inappropriate laws but an incompatible human factor. Laws that were introduced were very distant from traditional Russian social norms. Furthermore, as Campbell (2004: 164) emphasizes, ‘neoliberal ideas were translated into local practice in nationally specific ways. Reforms were implemented by decision makers and bureaucrats

[9] European Economic Community in 1968: France, Germany, Italy, Belgium, Netherlands, Luxembourg.

[10] Openness rate is calculated by the share of foreign trade (export and import) in GDP. Between 1970 and 1990 it increased from 10% to 22% in the U.S., from 30% to 44% in France, and from 40 to 54% in the UK.

[11] Between 1970 and 1995 the GDP per capita increased from $5,250 to $28,800 in the U.S., from $2,350 to $21,300 in the UK, from $2,860 to $27,000 in France, and from $2,750 to $31,700 in Germany (in current US $, World Bank, 2016).

according to their normative perceptions.' But perceptions of Russian bureaucrats as well as historically constructed human factor had never been capitalist (Egorova-Legon, 2013).

Consequently, many countries from Latin America, Africa or Eastern Europe trying to introduce rapidly "good institutions" under the pressure of economic globalization, misbalanced their institutional complexes, rendering them ineffective. In economics, institutions matter because, as Acemoglu et al. (2005: 389) point out, 'they shape the incentives of key economic actors in society, in particular, they influence investments in physical and human capital and technology, and the organization of production.' If created institutional structures are ineffective, they don't guide the behaviour of economic actors and thus don't incite productive actions and economic performances.

Therefore, the impact of economic globalization can be destructive if it pushes countries to apply the IFC model of institutional change. The latter negatively influences the effectiveness of internal institutional structures and leads to the criticism and rejection of globalization itself.

However, competition for international markets, for international capital and neoliberal principles influenced not just countries that ignored their human factors. Campbell (2004: 165) presents the example of Denmark where 'pressures of international competition led decision makers to search for ways to incorporate neoliberal principles into traditional Danish institutions'. Indeed, attracted by the decentralized principles of a neoliberal approach, Danish leaders decided not to abandon industrial policy but rather to establish new, decentralized links between public and private actors. 'The result was a new, decentralized, but still negotiated and corporatist form of decision making that encouraged firms to adopt new technologies and production practices'.

However in Denmark, the capitalist human factor evolved over centuries (see e.g., Hall, 2006; O'Rourke, 2006) and this international pressure influenced institutional changes while still remaining in accordance with Danish shared beliefs.

Djelic and Quack, analyzing changes in European industries, argue that 'national institutions are robust and durable but they can change' and globalization can contribute to this process not by 'destroying national institutional frames but rather pushing along their evolution and transformation' (Djelic and Quack, 2003: 3).

Economic globalization and the HFGT

Human Factor's Global Transformation model sheds new light on how economic globalization can affect internal institutional structures. Indeed, international trade, multinational corporations, new technologies, and international organizations may stimulate the progressive modification of human factors and evolution of social norms of unproductive behaviour to the social values that incite productive actions.

At the society level, unproductive behaviour is often characterized by rent-seeking activities (Tullock, 1971; Krueger, 1974; Bhagwati, 1982; Baumol, 1990) such as lobbying, corruption, research of privileges, promotion of monopolist legislation, or litigiousness, that divert resources from productive actions, limit the liberty of entrepreneurship and decrease the incentives for innovation. At the company level, unproductive behaviour is related to the limitation or suppression of workers' participation in rule making, shaping and enforcement, the limitation of flexibility in evolving design (Ostrom, 1990; Ritchie, 2016), the support of strongly hierarchical relationships inhibiting creativity (Burns and Stalker, 1961; Kanter, 1983) and encouraging privilege-seeking behaviour which can result, for instance, in unfair remuneration which is not based on responsibility level and hours of work. Both levels are based on the particular character of the human factor and there is permanent interaction between them. The change of norms and values on the company level influences social norms

while social norms will mostly determine those of a company reflecting the model presented in the Figure 1[12] (Section 3).

The question here is how can economic globalization affect norms and values on both levels and transform the human factor?

Firstly, international trade allows national actors to extend their field of reach beyond national borders and increase their repeated interactions with the representatives of different human factors. Indeed, markets, like other institutions, are evolutionary and formed by both formal and informal institutions. According to Hodgson (2015: 136), 'the broadest definition of the market refers to all forms of transfer of goods or services, including anything from customary or ceremonial transfers within tribes or households to organized markets with multiple buyers and sellers'. National markets will probably bring together buyers and sellers from the same human factor who will trade according to shared social norms, such as free competition, mutual favors or gifts or preferences for personal networks. Even if the contractual form can be the same, negotiations, pricing and partner selection processes will change between different countries with different human factors. In international markets, actors from different human factors will trade together. They will not be able to achieve their goals following their national norms. New patterns of exchange will be needed to trade with foreign actors. As a result of repeated interactions, individual mental models will be altered and the multiplicity of such actors will lead to the development of shared beliefs, even if slowly, constructing a new human factor. Therefore, international trade has disruptive effects on the behavioural regularities of members of a society.

European history provides many examples of norms and beliefs brought from other countries by traders (List, 1841; North, Wallis, Weingast, 2009). For instance, as the UNESCO report on Silk Roads (2008: 1) outlines, 'these vast networks carried more than just merchandise: the constant movement and mixing of populations also brought about the transmission of knowledge, ideas, cultures and beliefs'. This transmission was possible through the direct contact between the representatives of the different institutional structures.

In more recent European history, after the WWII, direct contact between American and European actors established the cult of productivity in European economies. In the framework of the Economic Cooperation Act, better known as the Marshall Plan, this was partly influenced by the interests of transatlantic trade, and numerous productivity missions were undertaken by European businessmen, managers, technicians and workers to the United States.

According to Richard F. Kuisel (1988: 26), a number of French participants highlighted in their reports that in the United States 'the productivity was the affair of human organization and mentality and was based on more open relationship between bosses and employees'. Henri Morsel (1999: 413) also concludes that French participants insisted in their reports that management is, above all, a production-oriented state of mind. The productivity cult was already important in European capitalist societies but it was strengthened as a result of transatlantic human contacts. As Hodgson (2015: 324) points out, successful diffusion depends on recipient institutions being sufficiently adaptive.

Secondly, on the level of the company, global transformation of human factors has occurred through multinational companies (MNC). As Djelic and Quack (2003: 8) argue that actors playing at the transnational level bring with them frames of reference from their institutional arenas of origin. Multinational companies, however, despite the fact they are

[12] According to D. North (see the correspondence between D. North and G. Hodgson in Hodgson 2006: 19), companies and other organizations can be presented as actors if the analysis is situated on the level of society. In this case the discussion regarding the interaction between individuals and structures presented in the sections 2 and 3 is valid here. On the other hand, companies and other organizations can be considered as institutional structures as they guide the behaviour and motivations of their members. In this case, the analysis is situated on the level of company.

often criticized, represent perfect mediators of organizational norms that are able to incite productive behaviours. In 2010 the countries of origin of the biggest number of MNCs were the United States with 27 percent, the Western Europe with 35 percent and Canada and Australia with 4 percent. According to Eurostat (2013), these are also the most productive countries in the world.

Multinational companies employ about 80 million people outside their home bases (United Nations, 2010). Many studies have addressed the question of the impact of multinational companies on host countries' institutions, both at the macro and micro levels (e.g., Bae, Chen and Lawler, 1998; Kostova and Roth, 2002; Kwok and Tadesse, 2006).

These studies highlight that there is a real influence of the MNCs home institutional context on the practices of their subsidiaries in host countries. But the internalization of diffused institutions varies across different host countries. According to Kotova and Roth (2002: 228), in the countries that 'have a set of societal values and beliefs consistent with the practice, employees are more likely to view the practice as efficient and valuable for the subsidiary and embrace it'. In the opposite context, the process is more complex and long but the impact is still present. Meanwhile, Kwok and Tadesse (2006) emphasize the positive effects of MNCs on the institutional environment of host countries with widespread corruption. Bae, Chen and Lawler (1998: 667) study the influence of MNCs and their home countries practices on human resources management in Korea and Taiwan highlighting important effects of 'US-based firms practices that emphasize flexibility and responsiveness'.

In general, aside from Western countries, East-Asian countries have received the biggest share of world foreign direct investment since the 1970s and have been strongly influenced by Western institutions. At the company level, important changes influenced labour productivity. According to Asian Productivity Organization (2013), the average annual growth rate of labour productivity between 1970 and 2011 was 6.8 % in China, 5.1% in South Korea and 4.5% in Vietnam. It is interesting to note that in China, this indicator was 4.3 % from 1970 to 1990 and 9.1% from 1990 to 2011. When it comes to society, the change of values, as emphasized earlier, has been also high in Asian countries where the human factor's global transformation is in process.

Finally, technologies facilitate diffusion of information and the contact between individuals all around the world, and international organizations can influence the human factor's global transformation through economic cooperation programs.

In this perspective, Hodgson's definition of globalization as 'the greater frequency and scale of international business connections between individuals and firms' seems relevant (2015: 332).

Frequent contact allowed European or Asian economic actors to develop more productive social norms and increase the efficiency of their economies. However, all these countries have kept their distinctive characters because the HFGT model does not lead to identical structures. The human factor's transformation does not mean its elimination. This is consistent with the approach of John L. Campbell (2004: 129) that 'globalization is not leading to the homogenization of nation-states and that divergence remains the rule rather than the exception'.

Today, French capitalism, Swedish or Nordic capitalism, American capitalism or Korean capitalism are not identical, but based on different institutional models of capitalism. Hodgson (2015: 343) refers to 'internal barriers to convergence'. I would say particular character of human factors.

6. Conclusion

Historical fragments of the building of capitalism in different countries provide important lessons about international influences on internal institutional structures in the era of globalization. On the one hand, the attributes of globalization pushed some countries to establish capitalist institutions using turnkey solutions by importing formal capitalism from economically advanced countries. This model of institutional change, largely promoted by international organizations and referred to in this paper as the Import of Formal Capitalism (IFC), is based on the concept of asocial individuals able to rationally establish efficient systems of rules needed for better economic performance. The fact that individuals live in social groups that, during their long evolution, develop particular characters connecting people within the community and differentiating them from others, called here the human factor, is completely ignored in this approach. As a result, the institutions imported from other communities were often misunderstood by individuals of host countries because these formal rules were often inconsistent with local human factors. Consequently, imported institutions became inefficient, without guiding individual behaviour and destroying institutional coherence, negatively affecting economic results.

On the other hand, driving forces of globalization stimulate institutional change in different countries by transforming their human factors. This process, presented here as Human Factor's Global Transformation (HFGT), is based on the modification of shared mental models of each particular community adapting them progressively to the efficient capitalist functioning. This institutional change is slow and evolutionary starting by new individual experiences that alter individual mental models before spreading to the whole society. The evolution of social norms leads to the gradual modification of formal institutions consistent with the altered human factor. Countries that have been influenced by the globalization mainly in this way have demonstrated remarkable economic performance.

Thus, International Organizations and other global actors can better stimulate real institutional change by creating opportunities for the transformation of the human factor rather than by requiring national governments to set up particular formal institutions. Examples include economic cooperation programs aimed at facilitating direct durable contact between the representatives of different human factors or intensive collaborations between different economic, political and social actors.

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