

## The Interaction of Formal and Informal Market Institutes

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**Abstract:** We have offered a theoretic-methodological approach to studying the interaction of formal and informal market institutes based on essential characteristics of the institutional interaction as a phenomenon of social and economic reality, direct and indirect attitude of formal and informal institutes, an integrating factor of Russian institutional space, the reason generating pathologies of the institutional space of the Russian market. We have built a matrix of institutional interaction that characterizes four models of interaction of formal and informal market institutes.

**Key words:** Formal institutes • Informal institutes • Models of institutional interaction

### INTRODUCTION

The theory and practice of the last dozens of years convincingly show that the main factors that determine the success of an economic development of countries are the processes of an interrelated dynamics of cultural and geospatial parameters of national markets. The modern market is institutionally organized and that is confirmed by all economic schools and areas of focus, however, the issues of achieving an effective interaction of formal and informal market institutes are still extremely discussable.

Increasing the effectiveness of institutional interaction of economic agents is still the priority task both from the point of view of market participants and from the position of state structures, institutes of civil society. There is a practical, theoretical and methodological need to study the mechanism of formal and informal market institutes that confirms the relevance of this topic of scientific research.

In the philosophical encyclopaedia the word “interaction” is defined as a process of impact of different objects on each other, their dependence on each other, the change of state. The philosophical category of “interaction” means in a broad sense that interaction appears as an objective and universal form of movement of any social and economical system.

### RESULTS

From the point of view of the institutional approach it is significant that each participant of the institutional

interaction has to clearly realize that he is a subject of an interaction and he performs the functions that are entrusted in him together with another subject. The violation of performing the functions by one of the participants leads to the dysfunction of the institute, a collapse of an institutional interaction.

The next condition comes from this position – all participants of the institutional interaction need to have a similarity of goals to have an effective interaction; in turn, it would contribute to the implementation of functions (economic interests) of each participant on this process. However, the economic practice confirms that an institutional interaction can be conflict-based, can be accompanied by a clash of economic interests (for example, tax evasion, delays and non-payments of salaries).

The development of alternative, auxiliary institutes that provide in the interaction with basic institutes a balanced development of a certain public field requires targeted efforts from social subjects for its implementation.

Everything described above allows us to talk about a triunique essence of the process of interaction of formal and informal market institutes.

Next, we are going to move on to the issue of typology of institutional interaction. Our typology of interaction of institutes clearly records both the cases of positive interaction and the cases of negative interaction of formal and informal institutes which looks absolutely reasonable and which corresponds to the dialectics of public development. Four cases of institutional interaction

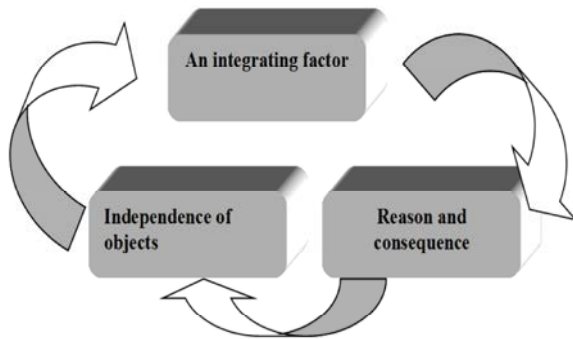


Fig. 1: The triunique essence of the interaction of formal and informal market institutes

that it specifies demonstrate the dialectic character of this interaction, the dynamics of institutional balance:

- Formal rules are introduced based on an informal rule that manifested itself;
- A formal rule is introduced to oppose the informal standards that have been established;
- The informal rules force out the formal ones if the latter generate unjustified money outlays of their subjects;
- The informal rules that appear contribute to the implementation of the formal rules introduced [4, pp.27-28].

The typology of the formal-informal institutional interaction towards political institutes was studied in the works of G. Helmke and S. Levitsky. In their well-known article «Informal Institution and Comparative Politics» G. Helmke and S. Levitsky rely on two measurements while determining the typology of informal political institutes:

- The degree of similarity in the consequences of work of formal and informal institutes;
- The effectiveness of the corresponding formal political institutes to some degree existing on paper rules and procedures that are fulfilled in practice.

The use of the named criteria allowed them to segregate four types of informal institutes: mutually complementing, substituting, adapting and competing. Relying on the conclusions of the study by G. Helmke and S. Levitsky, we will use the same criterion – the degree of coincidence of the consequences of the work of institutes, defining it as a vector of development of formal and informal institutes.

The second criterion is the speed of institutional changes that was introduced by us as an indispensable attribute of the temporary characteristic of the institutional space. The speed of institutional changes presents to us as a promising area of focus of scientific research that allows studying the dialectics of the institutional space more extensively.

Imagining a high-quality description of options of the interaction of formal and informal market institutes, we relied on an authogenetic concept, a philosophical statement that not all forms of interaction can be characterized quantitatively, not all phenomena permit a quantitative description and not all values have a quantitative meaning. However, in the qualitative sense, the interaction is spread on all material systems of any nature which we can refer to talking about the intensity of interaction. Being the source of everything in this world, interactions develop themselves as they are the operating force of evolution.

That is why the basis of constructing theoretical models will be not qualitative but quantitative characteristics – the criteria of the speed of change and vector of modernization of institutes, the differences in mechanisms of their functioning. The criteria of speed and the vector of changes allow thinking more thoroughly about the coherence of formal and informal changes, introducing the notions of timely and spatial coherence to characterize institutional interaction.

Further on we will provide a graphical demonstration of our theoretical construction as “The matrix of institutional interaction”. The intensity of color in the matrix shows the degree of effectiveness of institutional interaction. The white non-colored quadrant corresponds to the ideal case of interactions of formal and informal institutes. The brightest colored quadrant corresponds to the least effective case of institutional interaction (Table 1).

The highlighted four cases of institutional interaction were the basis of theoretical models of interaction of formal and informal institutes: the ideal model, the first imperfect model, the second imperfect model, “a catastrophe”.

To understand the built proprietary models the following provisions are significant:

- The models are relatively stable, but are not static;
- The effectiveness of institutional interaction is always relative;

Table 1: The Matrix of Institutional Interaction

Speeds of changes of formal and informal institutes	Vectors of changes of formal and informal institutes	
	One direction	Different directions
Coincide	« The ideal model» An institutional balance as the ideal state	« The second imperfect model» Imperfect interaction of institutes
Different	« The first imperfect model» Imperfect interaction of institutes	«A catastrophe» Complete collision of institutes

Table 2: The correlation of options of the system balance with theoretical models of the institutional interaction

Speeds of changes of formal and informal institutes	Vectors of changes of formal and informal institutes	
	One direction	Different directions
Coincide	« The ideal model» A genetic balance	« The second imperfect model» A synergistic balance
Different	« The first imperfect model 1» A homeostatic balance	« A catastrophe» An entropic balance

- The economic effectiveness of institutional interaction and institute life cycles have different trajectories.

In accordance with the concept of balance of social and economical systems, we can look at each model of institutional interaction as at a separate case, an option of balance of formal and informal market institutes. The concept of balance, by all means, is a powerful theoretical and methodological basis that provides at our disposal the description of four types of balances, in particular, an entropic balance, a homeostatic balance, a synergistic balance, a genetic balance. Projecting the characteristics of different types of balances on the theoretical models of institutional balance that have been provided to us, we enhance the understanding of the essence of the mechanism of institutional interaction (Table 2).

«The ideal model», in our opinion, corresponds more to the option of genetic balance. This is a state of an institutional space where we create and enhance protective reactions of institutes, when the formal and informal institutes of the market in the process of interaction have to respond to the anthropogenic impact to preserve this state of the institutional space.

«The first imperfect model», in our opinion, may be described with a synergistic balance, a relatively fixed state of the institutional space where the negative impact factors are suppressed through the inner structure of self-organizing rebuilding of institutes.

«The second imperfect model» is closer to the state of homeostatic balance where there is an enhanced process of targeted restoration of structural elements of the institutional space that are distorted under the impact of external factors.

The model «catastrophe» corresponds to the entropic balance when the institutional space is characterized by processes of degradation of the social and economical system including a complete destruction and liquidation of separate formal and informal institutes.

The effectiveness of the institutional interaction is always relative. The institutional interaction that showed its effectiveness in one country in a specific historical period can lead to the opposite result in another country. The conclusion of the ineffectiveness of importing western institutes in the Russian economy that is given in the works of the leading domestic scientists is long-established.

The economic effectiveness of institutional interaction and life cycles of institutes have different trajectories. For institutional interaction, the methodological principle of the regulationism theory will be fair, according to which it is not permitted to equate the viability of institutes and their economic effectiveness. «Inasmuch as institutes are elements of public connections and play a coordinating role, the task of increasing the economic effectiveness is in the second place for them». Therefore, not every interaction of formal and informal institutes of the market can be considered effective; there are cases that are characterized by serious contradictions in the institutional space.

Modern understanding of the dynamics of the institutional space permits institutional changes to lead to the exchange of relatively effective institutes for the ineffective ones. The idea about the possibility of changes of relatively effective institutes for ineffective ones is well illustrated by economic history. For example, V.V.Volchik gives an example of a decline in the economy

of China in the 15<sup>th</sup>-19<sup>th</sup> centuries in the context of the rate of implementing technological innovations in Chinese industry and trade.

The methodology of institutional research determines that the criterion of effectiveness of social and economical relations and, therefore, the criterion of effectiveness of institutional interaction should be the reduction of transactional expenses. The institutes that lead to the growth of transactional outlays cannot be effective and, therefore, models of institutional interactions of such institutes cannot be effective. The institutes can provide stability paying the price of high transactional outlays, i.e. be ineffective.

### CONCLUSIONS

Therefore, the interaction of formal and informal market institutes should be considered as a process of transformation of the institutional space that conforms to the total trends of sociogenetics. The triunique essence of the interaction as a phenomenon of social and economical reality determines the essential characteristics of the interaction of formal and informal market institutes as a process of direct and indirect relationship of formal and informal institutes, an integrating factor of Russian institutional space, the reason that generates the pathologies of the institutional space of the Russian market. The dialectics of the institutional interaction generates a lot of different models, the understanding of which moves us closer to the understanding of a complex mechanism of interaction of formal and informal market institutes.

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