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## Institutionalism in a nutshell

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GRZEGORZ MŁYNARSKI

SGH Warsaw School of Economics, Collegium of Business Administration, Department of Innovative City,  
ul. Madalińskiego 6/8, 02-513 Warszawa, Poland

 grzegorz.mlynarski@doktorant.sgh.waw.pl

 [orcid.org/0000-0002-8587-3470](https://orcid.org/0000-0002-8587-3470)

*Institutional economics: an outline of the theory and its practical dimensions (Ekonomia instytucjonalna: zarys teorii i jej wymiar praktyczny)* is a book written by Katarzyna Bentkowska and published in 2020 by SGH Publishing House at SGH Warsaw School of Economics. Katarzyna Bentkowska is Associate Professor at the Institute of Enterprise at the School's Collegium of Business Administration. Her research interests include formal and informal institutions, the role of institutional environment in enterprise operation, transaction costs, expansion of enterprises to foreign markets and behavioural economics.

The book is an overview of the various, often contradicting concepts comprising institutional economics. As the author mentions in the introduction: “the aim of the publication is to familiarize readers with this rapidly developing field of economics as well as with a critical and cognitive assessment of its achievements.” A prof. Ryszard Kata, peer reviewer of Bentkowska’s monograph notes,

„the book fills a certain gap in Polish literature”. It is another publication on institutional economics following prof. Jerzy Wilkin (2016) and dr. hab. Zbigniew Staniek (2017). While reading Bentkowska’s book, I was looking to answer the question: do we really need another book on institutional economics?

In the introduction, we read that the publication is aimed at academics in economic and social sciences and that the book „provides a comprehensive knowledge of institutional economics” and therefore „could serve as a student textbook.” I would emphasize that this is an ideal book for people who have little to no knowledge of institutional economics. However, those with a solid economic background will not be disappointed, either. The inexperienced reader will receive a well-structured and condensed presentation on the theory of institutions, which the author has prepared on the basis of a literature review. I completely support the author’s claim that this book “may encourage readers to seek further and explore

the theory of institutional economics in more detail”.

The formal aspects of the publication indicate that the author wrote it with students and lecturers in mind. Subsections used in each chapter facilitate working with the text for both groups of readers. The two subsections appearing in each chapter are:

- “Problems to think about” — in this subsection, the author poses questions to recapitulate and check the reader’s newly acquired knowledge as well as to encourage further consideration and reflection on the consequences of this particular way of analyzing and understanding economics;
- “A selection of supplementary literature”, which includes lists of recommended readings.

As regards the latter, the included literature lists demonstrate that the author is aware of her work’s cross-sectional character; therefore, it cannot offer answers to all questions related to topics discussed. However, readers receive clear guidelines where to seek additional information to broaden their understanding of the given topic.

*Institutional economics: an outline of the theory and its practical dimensions* is nearly 300 pages long. The monograph is divided into 10 chapters, giving it a clear structure, namely:

- *Institutions and their role in economics*;
- *Traditional and new institutional economics*;
- *Contracts theory*;
- *The theory of transaction costs*;
- *Ownership rights and their importance in the economy*;
- *Ownership rights — joint property management*;
- *Agency theory*;
- *Enterprise from an institutional perspective*;
- *Institution changes*;
- *Institutions and economic growth*.

The publication also provides a comprehensible introduction and afterword and its bibliography counts 254 items.

Each of the ten numbered chapters is structured in the same way: it begins with an „Introduction” and ends with the two afore-

-mentioned subsections: „Problems to think about” and „A selection of supplementary literature.” The subsections are numbered, which makes it easier to navigate through the book through its table of contents. Numerous charts and diagrams help to better understand the topics discussed, and the highlighted boxed texts contain answers to key questions. Despite the numbering used, the author does not refer the reader to individual subsections, even though the same issues are discussed multiple times throughout the book (e.g. the transactional perspective), which may make some readers feel lost. Similarly, there are no references to figures and diagrams in the text, so readers need to deduce which fragment they refer to themselves.

Over the past century, from the moment when Thorstein Veblen (1919, p. 239) began to criticize traditional economics for overlooking the evolutionary nature of economic phenomena as well as ignoring the role that institutions themselves play in research, many concepts have emerged within institutional economics, focusing on different issues and offering new analyses of the social and economic phenomena. Different perspectives on and goals for studying the meaning and role of institutions in economic life contributed directly to shaping many new theories, approaches and analytical methods.

Today, these development allow researchers to study and describe the phrasing and social understanding of binding principles and norms, the role and structure of agencies, the formation of contracts and the processing of transactions, the shape of economic systems, the process of transformation of economies or the operation of ownership rights.

It is difficult to put so many issues under one current<sup>1</sup>, however, their underlying common denominator is the belief that institutions (understood as sets of norms, rules and principles) are important and cannot be ignored.

<sup>1</sup> In institutional economics, a distinction is made between two main (alternative to each other) research streams: traditional institutional economics (TIE) and the new institutional economics (NIE); in the reviewed book, chapter two offers an overview of the topic. Bentkowska, K. (2020, p. 457).

At first glance, it is clear from the table of contents that the author undertook the ambitious task of presenting this wide spectrum of issues to the reader and decided to:

- introduce the importance and role of institutions in the economy (chapter 1. *Institutions and their role in economy*);
- provide basic knowledge on the main currents of institutionalism (chapter 2. *Traditional and new institutional economics*);
- present the relationship between neoclassical economics and new institutional economics, discussing the most important four theories of the latter (chapters: 3. *Contract theory*; 4. *The theory of transaction costs*; 5. *Ownership rights and their importance in the economy*; 6. *Ownership rights — joint property management*; 7. *Agency theory*);
- discuss how individual trends in institutional economics explain the operation of an enterprise (chapter 8. *The enterprise in institutional terms*), how institutions change (chapter 9. *Changes in institutions*) and how these changes affect the economy (chapter 10. *Institutions and economic development*).

If we assume that the book is really aimed at beginners in economic sciences, the first seven chapters can be considered an extended textbook on economics. Undoubtedly, the strong point of this publication is the synthetic presentation of theories selected by the Author, which need to be understood in order to be able to fathom practical applications of institutionalism. Particularly interesting is the analysis of the impact that researchers studying institutionalism contributed to mainstream theories, raising issues that other economists had failed to notice.

On the other hand, chapters 8–10 provide a great summary and a comprehensive understanding of the role and importance of institutions in economics. The information contained in these chapters is often overlooked in analyses conducted even by more experienced researchers and for this reason, it should be an obligatory reading for anyone studying economic phenomena.

Another virtue of the monograph is its comprehensive bibliography, which allows readers to further expand their knowledge on topics discussed.

The broad approach used by the author does not come without its limitations: it is impossible to describe in detail and explain all the phenomena discussed in the book. Therefore, the author seems to have decided to compromise, presenting an outline of the theory, focusing on showing a wide spectrum of institutionalism and thus forgoing in-depth analysis.

Due to the cross-sectional nature of the work, topics are often explained at a very basic level, and the information is subject to extensive synthesis. This may force readers to reach for other sources in order to understand the problems described.

The author tends to refer readers to sources focusing exclusively on the discussed phenomenon (which is probably related to her own experiences and interests) and rarely to positions that would foster a better understanding of the given phenomenon from the perspective of institutional economics. Personally, I find the book lacking references to more recent publications, including essays and articles, that would allow readers to obtain additional information on how other institutionalists see, analyze and understand the issues discussed by the author<sup>2</sup>.

Unfortunately, discussion on the applicability of institutional theory to research practice falls a bit short. The monograph does not offer any methodological guidelines or descriptions of analytical tools that would help practitioners analyze economic phenomena, never going beyond the theoretical level. I admit that I personally counted on at least one of these two elements, lured by the phrase contained in the second part of the title: „practical dimensions”. It is true that the book offers a lot of examples describing or illustrating the possibilities of each theory’s application, but these serve more as guideposts, leaving us with

<sup>2</sup> Noteworthy publications in this context include Andrews (2013), Richter (2015), Sammeck (2012), Voigt (2019).

nothing more than a theoretical description of the practical application of the theory.

To conclude, the book *Institutional economics: an outline of the theory and its practical dimensions* is a cross-sectional publication that can successfully fulfill the role of an academic textbook. It offers well-structured and condensed information about institutions, which the author presents from both an economic (market) and universal perspective. Due to the fact that this book is based on a thorough literature review, it can be the first point of contact or a guide to institutionalism.

What distinguishes the work of Dr Katarzyna Bentkowska from the books mentioned in the introduction is a very broad approach to the titular topic and its attempt to approximate the practical application of institutional theories in research practice. Noteworthy is the author's reliable and exhaustive presentation of theories that directly impact ways in which the economic reality is analyzed and understood from the perspective of institutional economics, i.e. the theory of transaction costs and ownership rights, as well as a detailed description of the practical use of these theories in the study of an enterprise (Chapter 8. *Enterprise from an institutional perspective*).

Although some of the threads mentioned by the author are more marked than discussed (e.g. the role of contracts or the theory of agencies) and the applicability of the theory

leave the reader wanting, this monograph differs from other similar publications available in Polish. It is a comprehensive textbook that will satisfy both those new to institutionalism (chapters 1–7) and more exigent researchers of economic phenomena (chapters 8–10).

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## Notes

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