EDITORIAL: Public and private sector entities in an institutional perspective

Dear readers!

All economies are characterized by their own institutional arrangements (North, 1990, p. 4). This arrangement determines the performance of the economy as a whole and the performance of the individual entities operating within that economy. The institutional arrangement also affects the way in which the economy, or the individual entities that comprise it, responds to emerging problems (North, 1990, pp. 6, 7, 9, 67; North, 1991, p. 97; North, 1992, p. 16). So what are these institutions and who creates them? Institutions are created by human beings. They have the character of constraints. They shape interactions between people (social, economic, political) and patterns of human behavior. Institutions can be divided into two groups. First are the informal constraints that result from tradition, culture, religion or customs (North, 1990, pp. 3, 25; North, 1991, p. 97; Krul, 2018, p. 154). The second group of institutions includes formal rules. They result from the legal solutions in force and concern every sphere of human life (North, 1991, p. 97).

The institutional arrangement in an economy is created incrementally. Its shape is influenced by the past, present, and future (North, 1991, p. 97). Institutional arrangements are not permanent. They are subject to change (North, 1990, p. 5). The feature that positively distinguishes a given institutional arrangement is its “adaptive efficiency” (North, 1992, p. 17). “Adaptive efficiency” characterizes institutional arrangements that can adapt to changes in the environment resulting from social, economic, and political problems (North, 2005, pp. 78, 154, 169). Agents of institutional change include members of the society who are organizational decision makers, entrepreneurs, and politicians (North, 1992, p. 10). Institutional change, however, is a complex process. It may originate in a change in informal constraints or formal institutions (North, 1990, pp. 6, 47; North, 1992, p. 11).

Organizations should be distinguished from institutions, although they also create a certain framework for people’s interactions (North, 1990, p. 4). Organizations include various types of social, economic and political entities (North, 1990, p. 5). Organizations are market participants (North, 1992, p. 10). They are purposeful by nature. The institutional arrangement determines how organizations operate, how they form and how they develop (North, 1990, p. 5; North, 1992, p. 10).

Institutional innovation is associated with organizations. It is the entrepreneurs gathered within the organization who are the actors of such innovation. Thus, creating the right organizations can be a source of overcoming archaic institutional arrangements (North, 1992, p. 19).

The above considerations show that the issues of proper formation of institutions are extremely important both at the level of the economy and at the level of individual organizations. These problems are addressed in the papers published in the current issue of the journal „Risk Governance and Control: Financial Markets & Institutions“.

In the first article, Teresa Izzo, Francesco Paolone, and Matteo Pozzoli address very important issues for public sector entities. They concern replacement cost, public sector reporting and fair value. The authors of the article point out the problems connected with the application of replacement cost. They note that in the current valuation standards no uniform approach to replacement cost has been developed so far. On the basis of content analysis of financial statements, they came to a conclusion that
there are definition and methodological problems connected with the replacement cost method. The considerations carried out in the article are part of the analysis of a specific institutional arrangement in which public sector entities function. Conclusions from the conducted analysis can be used in designing institutional change.

In the second article, Raef Gouiaa and Pierre-Richard Gaspard address the issue of Islamic financial institutions. They characterize Islamic financial institutions and point out the basic differences between Islamic and traditional banking. The authors also highlight the developmental trends of Islamic financial institutions in the world. Raef Gouiaa and Pierre-Richard Gaspard in the research part of the paper compare the performance of Islamic financial institutions with that of traditional banking. The research shows that Islamic banks perform better than traditional banks. The authors propose the implementation of Islamic finance in the Canadian financial system. The article is thus concerned with the change in formal institutions resulting from progressive changes in informal constraints. The problem of “adaptive efficiency” is addressed. As the authors argue, the consequences of the change should be beneficial to the Canadian economy.

In the third article Fabio Franzoi and Mark Mietzner compare the stock market performance of family and non-family firms under financial crises (financial crisis and euro crisis). They use a very interesting methodological approach. The research shows that family firms perform better in recovering from financial crises than non-family firms. Fabio Franzoi and Mark Mietzner argue for differences at the level of organizations and institutions. This article is part of the research on the resilience of specific institutional arrangements to external shocks.

In the fourth article, Nadia Cheikh Rouhou, Fatma Wyème Ben Mrad Douagi, Khaled Hussainey, and Ahmad Alqatan address the issues of International Financial Reporting Standards (IFRS) and Key Performance Indicators (KPIs). They study the impact of IFRS on the quality of disclosure of KPIs by UK FTSE 350 listed companies. The research was divided into two periods, i.e., before the introduction of IFRS and after the implementation of IFRS in the UK. The study found that the institutional change made had a positive impact on the quality of KPIs disclosure.

In the fifth article, Alessandra von Borowski Dodl undertakes a discussion of issues related to climate risk, financial stability, governance, and international cooperation. To a large extent, the considerations are set on institutional grounds. The author considers climate change in the context of financial risk and public policies in the perspective of climate-related agreements. The article deals with the creation of an institutional arrangement conducive to institutional change that will allow the adoption of internationally developed climate agreements.

The whole thing closes with a book review: “Innovation in financial restructuring: Focus on signals, processes and tools” by Marco Tutino and Valerio Ranciaro (Virtus Interpress, 2020). Stefano Dell’Atti highlights the book’s contributions in his review. The author points out that the book develops a novel approach to managing financial restructuring in a company. The book is in line with the issue of institutional innovation.

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REFERENCES