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THE ROLE OF THE INSTITUTIONAL ECONOMICS IN THE DEVELOPMENT OF LABOR PRODUCTIVITY MANAGEMENT THEORY

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Abstract. This article examines the main stages in the development of labor productivity management theory within institutional economics. Institutional economics has played a significant role in the macroeconomic analysis of this theory. The purpose of this study is to analyze the contribution of institutional economics to the development of an understanding of this theory and based on a summary of its key tenets, to develop specific proposals for developing a labor productivity management policy at the macroeconomic level in the republic. The possibilities for implementing the key conclusions and proposals of this economic theory to develop a long-term macroeconomic strategy for labor productivity management are discussed.

Keywords: Labor productivity management, institutional school.

ƏMƏK MƏHSULDARLIĞININ İDARƏETMƏ NƏZƏRİYYƏSİNİN İNKİŞAFINDA İNSTİTUTSİONAL MƏKTƏBİN ROLU

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Xülasə. Məqalədə institusional iqtisadiyyat daxilində əmək məhsuldarlığının idarə edilməsi nəzəriyyəsinin inkişafının əsas mərhələləri araşdırılmışdır. İnstitusional iqtisadiyyat bu nəzəriyyənin makroiqtisadi təhlilində mühüm rol oynamışdır. Tədqiqatın məqsədi institusional iqtisadiyyatın bu nəzəriyyənin anlaşılmasının inkişafına verdiyi töhfəni təhlil etmək və onun əsas prinsiplərinin xülasəsinə əsasən respublikada makroiqtisadi səviyyədə əmək məhsuldarlığının idarə edilməsi siyasətinin hazırlanması üçün konkret təkliflər hazırlamaqdır. Əmək məhsuldarlığının idarə edilməsi üçün uzunmüddətli makroiqtisadi strategiya hazırlamaq məqsədilə bu iqtisadi nəzəriyyənin əsas nəticələrinin və təkliflərinin həyata keçirilməsi imkanları müzakirə olunmuşdur.
Açar sözlər: Əmək məhsuldarlığının idarə edilməsi, institusional məktəb.

1. Introduction

The current stage of market economic development is characterized by growing competition in regional and global markets. One aspect of this competition is the search for a more effective mechanism for managing labor productivity, one that will ensure high rates of dynamic and sustainable growth. The importance of this problem lies in the fact that increased labor productivity is a crucial factor in reducing production costs, increasing production volumes and profits necessary for expanded production and raising the incomes of both the employed and the entire population of the republic. Institutional economics has substantiated the need to shift researchers' attention from a microeconomic, purely mathematical analysis of economic processes, where workers were viewed from a technocratic perspective, as simple executors of prescribed operations, to the unique nature of these processes. It proposed examining these processes at a macroeconomic level, where human-created institutions govern living individuals guided in their behavior by specific motives, interests, habits, mentalities and social relationships. In its historical development and understanding of the internal mechanisms of labor productivity management, institutional economics has evolved from simple declarative theses about the role of institutions in this process to uncovering the essence and role of a specific asset, human capital, in increasing labor productivity. Its main conclusions are based on the experience and examples of developed countries that have achieved significant results in improving the institutions that govern labor productivity at the macroeconomic level, including human capital management.

It should be noted that developing countries, in the process of establishing a market economy, are largely repeating the shortcomings of countries that have already established modern, advanced market economies. Therefore, it is important for them to formulate their productivity management policies, taking into account this experience and the relevant proposals of the institutional school of economics. Therefore, studying the key stages and conclusions of these theories and the potential for their application in developing market economies, including Azerbaijan, is of great scientific and practical interest.

2. Literature review

There is no unambiguous approach to the institutional school and its concepts of productivity management in the scientific literature. Over the past six years, many reputable researchers have published numerous articles in Scopus and Web of Science that provide a positive assessment of the institutional economics positions.

Saidi [1, pp.74-104] supported the positions of North and Williamson on the quality of institutions, their important role in reducing transaction costs and stimulating productivity growth.

According to Langlois [2], the concept of one of the most prominent representatives of the institutional economics, O. Williamson, on increasing labor productivity as management structures become more optimized, their numbers and the employees employed in them are reduced, deserves special attention. In the presence of effective institutional structures, making irrational management decisions in companies becomes technically impossible and ethically unpopular [2, pp.317-340]. A broad interpretation of the main positions of the institutional economis is also given by Kirdina-Chandler [3]. She considers the findings and proposals of the institutional school as real directions for creating rules and regulations aimed at preventing contract violations and the dissemination of asymmetric information that reflect the actual dynamics of labor productivity [3].

Along with a positive assessment of the positions of the institutional economics, negative reviews can also be found in the scientific literature. For example, Li et al. [4] believe that the complexity of the interaction of institutions creates conflicting, multidirectional incentives, which limits the ability of entrepreneurs to make rational decisions. In their opinion, representatives of the institutional economics do not fully appreciate the potential for conflict situations to develop in companies [4].

The article by Aeeni et al. [5] criticizes the institutional economics for their static view of institutions, underestimating their negative role and the role of agents in business. They believe that in reality, the activities of institutions can have destructive consequences, which negatively affects the dynamics of labor productivity growth [5, pp.1723-1762].

Another researcher, Pilat [6], based on an analysis of the activities of national productivity councils in 11 countries, concluded that institutionalists pay insufficient attention to the role of technology in increasing labor productivity, have problems coordinating the activities of institutions on labor productivity issues and are overly preoccupied with institutional determinism [6, pp.12-39].

Overall, the institutional economics is recognized as one of the leading institutions in the development of macroeconomic economic theory, making a significant contribution to the development of labor productivity theory and the factors that influence its growth. A positive factor of the cited scientific publications is the identification of positive and negative aspects of labor productivity management, a critical assessment of achievements and shortcomings in this area, their desire to search for more effective forms of labor productivity management in modern conditions through the use of more effective institutional structures.

3. Theoretical concepts of early institutional economics

The historical development of the institutional school reflects the development of knowledge, humanity's ever-deeper insight into the essence of economic processes and the potential for applying this knowledge in practice. This can be fully applied to the productivity theory of the institutional school.

The evolution of the institutional economics also went through two stages:

a) Old institutional economics, the formation of which spanned the period from the end of the 19th century to the first half of the 20th century;

b) New institutional economics - the second half of the 20th century to the present.

The most prominent representatives of the old institutional economics or in other words, the first half of the 20th century, were T. Veblen, D.R. Commons and W. Mitchell. Table 3 below presents the main views of these scholars on labor productivity theory.

Summarizing the main tenets of the founders of institutional economics, it can be said that they significantly expanded our understanding of the economic processes occurring in society. While representatives of the classical and neoclassical schools viewed economic processes and their development as independent institutions evolving according to their own rules and Marxists viewed them as exploitation by a minority (capital owners) of the majority, i.e., workers in firms and companies, institutionalists demonstrated:

Table 1. Comparative analysis of the main positions of institutional economics representatives of the first half of the 20th century on labor productivity theory

Essential Questions	T. Veblen	J. Commons	W.Mitchell
Definition of the category of labor productivity	Productivity is a human genetic ability to improve the results of one's activities. It is a kind of natural evolution of human work activity.	The understanding of productivity is determined by collective actions and institutions (law, negotiations, trade unions).	Productivity is a specific result determined by business cycles and the movement of money supply.
The main contradiction of labor productivity growth	Conflict of interests between industrial development represented by managers (increase in production, efficiency) and business (profit, sabotage, predation). Private interests of business hinder the maximization of labor productivity	Periodically arising conflicts of interest between labor, capital and the state	Productivity depends on the balance of power and the existence of fair legal norms. Institutional instability (monetary system, economic cycles) has a strong impact on productivity fluctuations.
The impact of public institutions on the growth of labor productivity in the country	Many institutions, especially in the form of the "leisure classes", conspicuous consumption and financial fraud, contribute to a decline in productivity	Public institutions (represented by legislative and judicial bodies, collective agreements) are the main instrument for ensuring productivity growth through the regulation of relations	The real efficiency of a country's economy is determined by such institutions as monetary, banking and statistical bodies
The relationship between productivity and technology	Engineers and technologists are inherently the bearers of cutting-edge ideas and high productivity. Business owners hold back their implementation.	Legal and collective institutions act as transmission mechanisms for advanced technologies	Based on a large array of statistical data, the impact of technology on economic cycles and labor productivity was studied
Contribution to the development of labor productivity theory	He criticized the views of neoclassicists, who viewed productivity as an exclusively economic process. He substantiated the socio-evolutionary and cultural nature of productivity	He argued for the need to move from understanding productivity as an individual category to its collective essence	Conducted the first in-depth, quantitative study of productivity and business cycles

Source: Compiled by the author based on [7; 8]

First, the role of social institutions in the development of the economy as a whole and labor productivity in particular. The quality and level of organization of institutions can accelerate or slow down the growth of labor productivity;

Second, they also pointed to the significant role of subjective factors in these processes, such as habits, culture, traditions, national mentality and internal power relations. They were the first to identify these subjective factors, which became the subject of research by scholars in the second half of the 20th century;

Third, they demonstrated that labor productivity is not a simple technical category, as classical and neoclassical economists asserted, nor is it a class-based category, as Marx envisioned, but, above all, an institutional and behavioral one. It is strongly influenced by social institutions and subjective human factors such as a person's psychological and mental state;

Fourth, knowledge and technology are realized through a specific institutional environment. Wesley Mitchell substantiated the profound dependence of economic cycles and labor productivity on the level and pace of technological development.

E. Mayo's research on determining the factors driving labor productivity growth, conducted at the microeconomic level from 1924 to 1932 at a Western Electric Company electrical relay assembly plant in the United States, played an important role in substantiating the conclusions of the above-mentioned authors. E. Mayo formulated his main conclusions in the following principles:

1. A person is a unity of psychological and social components, aware of their belonging to a particular group and group behavior. Therefore, HR issues should be considered through the prism of these factors, that is, “human relations”;
2. A rigid bureaucratic hierarchy in an organization hinders the development of human nature and the development of human potential;
3. The interests of people should be the focus of company management. All efforts to improve labor productivity must be built with consideration for creating favorable working conditions for employees and opportunities for interpersonal communication;
4. Rewarding the entire group based on performance is more effective than rewarding an individual. Social motivation is significantly more effective than economic motivation;
5. Informal groups exist in any organization. These groups and their structure are formed as a result of social interaction among staff. These groups have a significant impact on the organization's effectiveness.

Thus, E. Mayo's concept of “human relations” allowed us to view production organizations not only as technical and economic units but also as a “social system” in which both economic and social laws operate. Workers should be viewed not as simple, mechanical performers, but as integral members of the social system. As a result, the theoretical assumption of representatives of the institutional school of the first half of the 20th century regarding the influence of subjective factors on labor productivity found practical confirmation in E. Mayo's experiments and his concept of “human relations”.

A key strength of the institutionalists' positions discussed above is their critical approach to the institutional structures that had emerged in the economies of developed countries at the time, structures that functioned in Europe and the United States in the late 19th and first half of the 20th century. They critically analyze their strengths and weaknesses in terms of their impact on the economy, identifying key areas for further improvement and opportunities for increasing the competitiveness of these economic systems.

Much of this critique of institutional structures is relevant today to the realities of Azerbaijan. Particularly noteworthy is the notion that public institutions, depending on their quality, can hinder or accelerate productivity growth. Every four to five years, the World Bank publishes "Azerbaijan - Country Economic Memorandum: Towards a New Era of Growth", which analyzes the country's economic situation and the impact of institutional structures on it [9]. The main findings of this study in this context are summarized below in Table 2.

Table 2. The impact of institutional factors on the economy of Azerbaijan

Institutional factor	Negative impact on labor efficiency and productivity
1. The dominance of state-owned enterprises in the economy	Suppressing competition and capital inefficiency. The monopoly position of state-owned companies distorts market signals, limits private small and medium-sized enterprises' access to resources, perpetuates low operational efficiency and deprives them of incentives for modernization, leading to stagnation in aggregate productivity
2. Uneven playing field (Level Playing Field)	Ignoring the principles of market resource allocation leads to state-owned enterprises receiving regulatory preferences. As a result, inefficient firms maintain their presence in the market, while efficient private firms are limited in expanding their production scale. This irrational resource allocation creates serious obstacles to the growth of average labor productivity across economic sectors
3. Problems with the protection of property rights and lack of transparency in the resolution of commercial disputes	Companies prefer short-term operations to long-term investments in fixed capital, innovation and new technologies, without which qualitative growth in labor productivity is limited.

Source: Compiled by the author based [9, pp.24-45; pp.72-95]

Table 2 reflects the areas of institutional activity that, according to the Azerbaijan - Country Economic Memorandum, World Bank [9], negatively impact economic development in the republic. These are primarily problems related to the monopoly position of state-owned enterprises, public institutions' disregard for the principles of market resource allocation and problems with the protection of property rights. These problems were already highlighted by representatives of the first wave of institutionalists.

4. Theoretical concepts of new institutional economics

The second half of the 20th century saw dramatic changes in the technical, technological and socioeconomic development of society, necessitating further research into issues of labor productivity theory.

Proponents of the new institutional economics, particularly those of the 2011-2025 period, have also made significant contributions to a deeper understanding of the factors driving labor productivity growth in a market economy. Unlike the non-classical school, new institutionalists recognize the importance of defining labor productivity in the economy but believe it is not a unique technical phenomenon. They view labor productivity as a product of the institutional environment, which shapes specific incentives, the magnitude of transaction costs and determines the forms and content of the distribution of property rights. The most prominent representatives of the new institutional school since 2011 are American scholars Douglass North, Oliver Williamson and Daron Acemoglu.

D. North believed that the main factor in long-term growth in labor productivity is institutions that enforce formal and informal rules of conduct in the market. Inclusive institutions act as economic motivators of productivity; that is, by establishing appropriate rules and norms of behavior, they create favorable conditions for the participation of broad segments of the population in solving their vital problems. They ensure the protection of citizens' property rights, motivate the development of skills and abilities and create objective conditions for economic growth and labor productivity.

According to North, extractive institutions, by limiting the participation of the majority of the population in the distribution of goods and making the most important decisions, hinder social development and the growth of labor productivity [10, pp.159-168].

The research of another well-known representative of the institutional school, Oliver Williamson, a Nobel laureate in economics and a student and colleague of Nobel laureate Robert Coase, focuses on issues of transaction costs and the improvement of organizational structures at the firm level aimed at increasing their efficiency. According to his theory, labor productivity increases as a result of optimizing a company's management structure and its creative ability to adapt to market dynamics and external shocks. It is also necessary to create institutional structures that make it unprofitable for firms and companies to violate contracts, conceal information or improve their operations for narrow, selfish purposes [11, pp.63-75].

Table 3. The main positions of economists of the new institutional economics on issues of the theory of labor productivity

Key issues of the theory of labor productivity	New institutional economics
1. The essence of labor productivity	The result of the quality of public institutions and the incentives they create
2. Methodology for measuring labor productivity	Measurement through the assessment of transaction costs, the effectiveness of institutions and the protection of property rights
3. Determining factors of labor productivity growth	1. Quality of institutions (inclusive and extractive) 2. Protection of property rights 3. Reduction of transaction costs 4. Political institutions

Source: Compiled by the author based on the results of the above analysis

Another American researcher, Daron Acemoglu, deepened and expanded the institutionalists' position on labor productivity theory. He believes that productivity growth depends not only on the effectiveness of economic institutions but also on political institutions.

In this regard, he asks why political institutions in some countries create economic institutions that stimulate productivity growth, while in others these efforts fail to produce positive results and sometimes even create conditions for regression [12, pp.1709-1748].

As the economy developed, the understanding of the factors driving this growth deepened and expanded. Institutionalists' theoretical concepts accorded labor productivity a crucial role in this development. The evolution of factors driving economic growth and labor productivity progressed from simple tangible factors of wealth, such as precious metals in those days, to tangible factors of production (land, capital), then to state institutions (legislative and administrative bodies) and later to human capital. The current stage of economic development is characterized by an increasingly growing understanding of the decisive role in economic growth and increased labor productivity of the interaction between social institutions and human capital, as factors driving innovative development. In this area, in recent years, profound, comprehensive studies have been conducted and published, analyzing large volumes of statistical data to demonstrate the influence of social institutions on the development of various countries. Renowned researchers of these issues divide all social institutions into two broad groups:

- Inclusive institutions, which represent a combination of many different social, economic and political mechanisms that provide their citizens with equal rights to access resources And comprehensive development without discrimination in any form;
- Extractive institutions, which represent a set of social, political and economic rules and norms that allow a minority of the population to consume a majority of public resources.

American researchers Acemoglu and Robinson believe that the dominance of inclusive institutions in society creates the following advantages:

- All segments of society receive guaranteed protection of property rights;
- The former, in turn, creates favorable conditions and incentives for investing in innovation and increasing labor productivity;
- Innovation and technological progress receive a powerful incentive for their progress;
- The state focuses on providing high-quality public services to all categories of the population, such as education, medicine, sports and recreation facilities, etc.;
- The interaction of all the above factors ensures stable growth in labor productivity and well-being, a socially equitable system of wages and incomes for the entire population.

The functioning of inclusive institutions generates the opposite effect of increased trust and support from the population, the establishment of peace and social harmony in society and an environment of healthy competition aimed at strengthening the political, economic and social foundations of a given society [13].

Extractive institutions are characterized by:

- Low protection of property rights for the majority of the population;
- A rent-based and distributive economy dominates;

- A selective approach to innovation, meaning only those aimed at strengthening the economic position of oligarchic groups are permitted;
- Low social mobility of the population is compounded by high levels of migration;
- Low rates of economic growth are observed, combined with stagnation.

Table 4. The relationship between the state of inclusive institutions and the implementation of innovations in the Azerbaijani economy

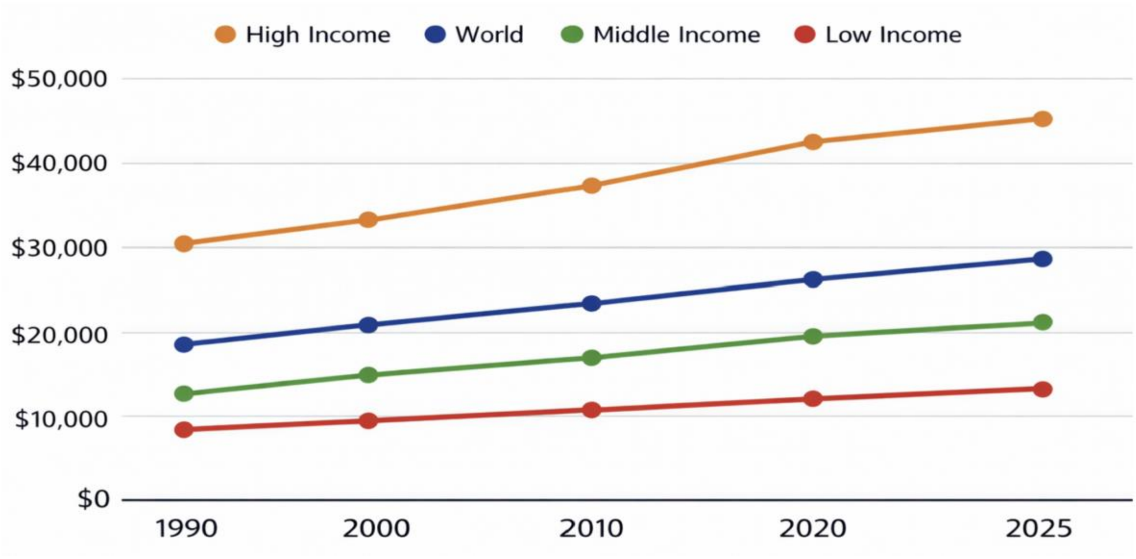
State of the institutional factor	Gaps in innovation implementation
1. Insufficient maturity of institutions regulating market competition	Low incentives for innovation due to restrictions on full-fledged internal competition. Regulatory barriers reduce companies' incentives to implement advanced management practices and digital solutions
2. Weak institutional support for human capital	Skills Mismatch. Ineffective coordination between educational institutions and the labor market, resulting in a shortage of qualified personnel. Limited worker competencies reduce the impact of implemented technologies and worker productivity.
3. The initial stage of development of social partnership institutions	At the macro and micro levels, a rigid centralized management system dominates, which limits employee participation in making important decisions at the strategic and operational management levels and accordingly, motivation to increase labor productivity.

Source: Compiled by the author based on [9, pp.24-45; pp.72-95]

Table 4 presents the main findings of the World Bank's Azerbaijan - Country Economic Memorandum [9], which show how the weak maturity of inclusive institutions hinders the implementation of technical and managerial innovations to increase labor productivity and the efficiency of the entire economy in the republic.

The enormous role of inclusive factors in economic growth and labor productivity is evidenced by statistical data on labor productivity levels in developed and developing countries. Figure 1 shows statistical indicators of labor productivity levels for 1990-2025 for the following group of countries: a) All world; b) High-income countries; c) Low- and middle-income countries; d) Low-income countries.

This graph shows that highly developed countries, that is, countries with high incomes, demonstrate higher levels of labor productivity and faster growth rates than developing countries. Clearly, this has become possible not only and not so much due to advanced technology and engineering, but rather due to the creation of more effective institutions that stimulate the development and application of these advanced technologies. These data confirm the fundamental concepts of the institutional school outlined above regarding the fundamental tenets of labor productivity theory.



Source: Compiled by the author basedon data from https://data.worldbank.org/indicator/

Conclusion. The institutional school of economics' historical role in labor productivity management lies in shifting the focus of research from the microeconomic to the macroeconomic level, defining the role of public and state institutions in this process. They have specified and classified the activities of these institutions, identifying the directions of their negative impact on economic efficiency and labor productivity. The significance of institutionalists' positions on these issues lies in their constructive critique of the role of institutions in economic development.

The institutional school's key conclusions and proposals remain relevant today. They are particularly important for labor productivity management in emerging market economies. We have concretized, at an abstract theoretical level, the results of the Memorandum published by the World Bank in 2022 on Azerbaijan in the context of identifying the main problems in the management practices of the republic's institutional structures and the directions of their negative impact on economic development. Among these problems, those related to the protection of property rights, the application of non-market principles of resource allocation, low incentives for innovation and the underdevelopment of a social partnership system at all levels of government deserve special attention. The elimination of these problems should form the basis of the long-term economic policy strategy of government institutions involved in the process of managing labor productivity.

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