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Kurumların Uzun Dönem Ekonomik Gelişiminin Pozitif Etkilerini Arttırmak İçin Bir Yönetişim Modeli

A Governance Model for Increasing the Positive Effects of Institutions on the Long Run Economic Growth

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Özet

Bu çalışmanın temel amacı, kurumların ekonomik büyüme üzerindeki etkilerini derinlemesine bir literatür taraması temelinde eleştirel olarak analiz etmek ve teknolojik bakış açısıyla bu hususta bir çözümleme üretmeye çalışmaktır. Bu çalışma, kültür, gelenekler, zımnı bilginin, yeniliklere açıklığın, yeni yüzyılda öne çıkan noktalar olduğunu ve uzun vadede kurumların olumlu etkilerini arttırmak için kurumların dijital makroekonomide bir yönetim ve yönetişim modelinin gerektiğini ortaya koymuştur. Endüstri 4.0, akıllı şehirler ve e-devlet çağında bilgi teknolojileri (BT) ile iş süreçlerinin bir geçerli yönetim ve yönetişim modeli sayesinde entegre edilmesi gerekir. Yenilikçilik iştahının ve kurumların BT becerilerinin kapasitelerinin piyasadaki karlılık ve yetkinliklerini olumlu yönde etkilediği varsayımıyla, COBIT modeli, sürdürülebilir bir platform sağlayan etkin ve verimli kurumsal kuruluşların ekonomik değer yaratma döngüsü için geçerli ve sürdürülebilir bir çerçeve olabildiği tespit edilmiştir.

Anahtar Kelimeler: Kurumlar, ekonomik büyüme, e-devlet, yönetişim kültürü, COBIT

JEL Sınıflandırması: A11, B52, M21, O43

Abstract

The main aim of this study is to critically analyze the effects of institutions on economic growth on the basis of a deeply literature review with a technological point of view. This study found that culture, traditions, tacit knowledge, openness to innovations are the outstanding points in new century and we assert that for increasing positive effects of institutions in the long term there should be a model for management and governance of business of institutions that is the whole economy in the digital macroeconomics. In the era of the upcoming industry 4.0, smart cities and e-government paradigms there should be integration of IT and business processes via a valid management and governance model. With the assumption that innovation digestion and cutting-edge IT capability of institutions have positive effect on their profitability and competency in the market, COBIT model is found to be a valid and sustainable framework for effective and efficient institutional set-ups that provide a sustainable platform for economic value creation cycle.

Keywords: Institutions, Economic Development, E-government, Governance Culture, COBIT

JEL Classification: A11, B52, M21, O43

INTRODUCTION

Institutions have been seen as the very determinants of individual behavior and attitude of economic agents that contributes significantly to performance of economies. It is known that the most systematic and disciplined studies started with old institutionalist point of view (Leite, Silva & Afonso, 2014: 496). As New Institutional Economics (NIE) includes contributions of the neoclassical and the standard evolutionary

models and theories and operates within a specific institutional framework, it was argued that it can be a more valid approach to explain economic performance (Leite, Silva & Afonso, 2014: 505). NIE has criticized neoclassical economics for failing to appreciate the extent to which formal and informal institutions provide, shape and constrain available opportunities, and for not recognizing that people make decisions with limited information through mental constructs that can sometimes be faulty (Tamanaha, 2015: 95).

Institutions are defined by Douglas (1991:97-112) as “*humanly devised constraints that structure political, economic and social interaction*”. Although there are a wide research and publication over the role of institutions in shaping individual behaviors, the role of models and frameworks used in institutions that effect the long run economic growth is not studied by the researchers. However, in the last two decades, many researchers have profoundly produced some outputs in order to observe the main effects of institutions on long term economic growth. There have been some critical points which one of them is whether or not of which institutions affect long term economic growth, financial institutions or human resources or both. In some cases, rather than having economic institutions, human resources who are able to run these institutions could be more important.

The institutions are assumed to have an exogenous influence on the economy in during years of 1980-2000. Indexes of civil and political liberties developed by Gastil were used by Dawson (1998: 603-619); Gwartney et al. (2006: 255–273). These are several independent pieces of researches in literature. The main driving forces of growth that are successfully made by the developed countries and challenges of developing countries remains unclear due to the insufficient data as well as different indicators used in various studies. Therefore, many researchers attempted to understand what causes one country to move forward economically and how economic progress add value to institutional development and quality and which institutions are affecting individual behaviors and economic performance but neglected the very determinants behind institutional success such as professional models and management frameworks that triggers economy, effectiveness and efficiency of operations. ‘Institutional thickness’ is, therefore, a facilitator in creating a thriving environment for governance. The presence of a wide range of capable institutions, transversal and vertical networks, different power structures among institutions and actors and the existence of a local common enterprise are pre-conditions to the successful governance of growth (Pareja-Eastaway & Miquel, 2010, s. 32).

As to the definitions of institutions such as; rules of the game that regulate agents’ actions; mostly defined by human intention, optimizing behavior is allowed (in agency theory); institutions may emerge spontaneously or “Rules of the game” previously defined by players; institutions emerge spontaneously through self-organizing processes can be affiliated with institutional capacity, development of governance and management structure and capability of their processes as defined by COBIT.

The companies benefiting from these advantages have made significant gains in terms of competitiveness in the marketing of products and services compared to other companies in the same market, so do the institutions in their respective field of service or responsibilities. However, many jobs have become easier, more convenient and remote through IT infrastructure and online business processes. With the help of information technologies, businesses have gained revenue by selling their idle capacities to other businesses. However, with the opportunities provided here, institutions need to evaluate how the structure of their businesses in the sector will change and how the sector will use this technology. Institutions will have the opportunity to see how they can create new jobs from existing jobs as a long-term effect on the economy. In order to benefit from information technology facilities, action plans of the enterprises are required to be in line with congruent management and governance models that pave the way for economic innovation. In other words, institutions should have a plan with strategic investments to acquire the technology and pertinent governance models required to take advantage of this technology. For businesses,

remote access, online ordering system and management have come with great convenience so that the services have become widespread and have the opportunity to run effectively in the long term. Nowadays, institutions try to make the ecosystem and infrastructure for industry 4.0 to enable business more competitive in the digital production era.

There are a few research questions for which we are trying to find answers in this study. First and foremost is to determine how pure economic indicators would be sufficient to explain the growth. Second, whether or not institutions play an essential role; the third is to find an answer if natural endowment plays a vital role for the growth throughout history and the fourth is to develop a model for increasing positive economic effects of institutions in the long term using COBIT-5 framework. With the assumption that digestion of innovation and cutting-edge IT capability of institutions has positive effects on their profitability and competency in the market, COBIT model is found to be a valid and sustainable management and governance framework for effective and efficient institutional set-ups that provide a sustainable platform for economic value creation cycle.

With this paper, we are going to focus on finding a model that provide sustainable positive the effects of institutions on long run economic growth and in particular the quality of institutions through integration of business and IT processes in its governance structure. The methodology of the study is completely based on review of the secondary literature previously published by others and modelling out of scratch using COBIT-5 framework for value creation of institutions. Our assumptions are as follows:

1. There has been little research backlog in the academic literature regarding effects of institutions on the long-term economic performance.
2. Colonialization, urbanization and quality are paradigms that have produced effects over performance of institutions in the long term.
3. Innovation is not optional. Every institution has to adopt new circumstances of changing environment and ecosystem.
4. Institutional capability and maturity levels are closely affiliated with economic development of countries.
5. Effectiveness and efficiency of institutions are being positively affected by IT enabled of processes and management&governance structure.
6. Integration of business and IT processes and structures will provide more value delivery to institutions and their stakeholders.
7. Management and governance of IT cutting edge technologies together with business activities and processes have been one of the most challenging issues for development of organizations.
8. Implementing a valid and comprehensive international standard or framework for better management and governance of IT and business to achieve stakeholder needs are one of the core accomplishments.

The study which has a multidisciplinary characteristic of both economic and management sciences is divided in seven main sections. Following the first part covering introduction section, which gives an introductory to the OIE and NIE providing a comparison regarding new institutional economics; the second part gives historical evolution of academic research on the institutions and NIE; the third briefly lays out some essential information on critical roles of institutions; the fourth part extends with some findings and critical points of the researches institutions' role on the role of long term economic growth done by some

economists; the fifth part extends the quality of institutions in the long term economic growth; the sixth part seeks to investigate whether COBIT-5 model can be a unique and flexible model for governance and management of institution; and the last part concludes with findings and suggestions.

1. STUDY OF INSTITUTIONS

A critical point is on whether economic growth leads to institutional development. Acemoglu et al., (2002) used two proxies in order to measure the effects of institutions on long term economic growth: income per capita and urbanization. However, Gwartney et al., (2006: 255–273) employed three different variables in his study of institutions, and the impact of investment on Growth: tropical location, coastal population and distance from major markets.

Institutional economics, the first and only unique school of economics born in the United States (USA), spread rapidly again in the USA, especially after the First World War. The intellectual foundations of corporate economics were laid by Veblen and although corporate economics was developed under the leadership of Veblen, the concept of corporate economics was first introduced by Hamilton in 1918 by the "American Economics Association". It was used in the paper "The Institutional Approach to Economic Theory" presented at the annual meeting (Ekelund & Hébert, 1990: 40; Mills, 1953: vi; Rutherford, 2000: 278-279). In the declaration in question, Hamilton stated that the basis of economics is the institutions and the importance of institutional economics in the economic life of institutions (Hamilton, 1919: 311).

Figure 1 below shows the historical evolution of academic research. The number of NIE articles has been significantly increased in the last decade. As depicted at the figure 1, at the beginning of 1990s hardly was there any research conducted on NIE in academic literature. But in the following decade, it has categorically increased and reached up to 0.3 percent of overall academic papers.

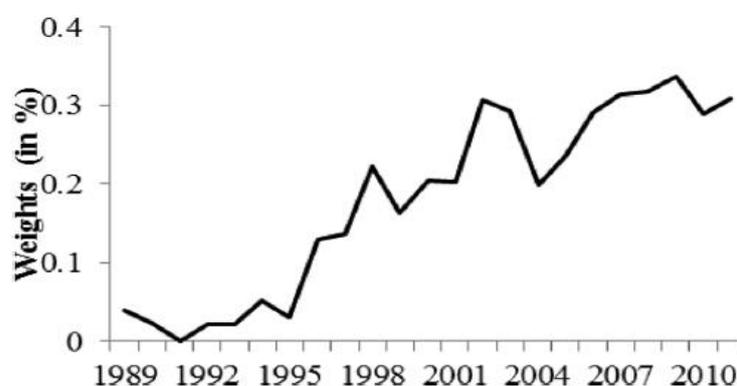


Figure 1. Historical evolution of academic research on institutions and NIE

Source: (Leite, Silva, & Afonso, 2014)

As shown in the figure 2 below, academic research on “institutions” began at the end of 1870s reaching to above two percent in 1890 and after a while of shrinking began to accelerate by 1970s till 2011 categorically and persistently up to 2.5 percent of overall academic research.



Figure 2. Evolution of “Institutions” in the academic research

Source: (Leite, Silva, & Afonso, 2014)

Institutions are humanly invented constraints which build political, economic and social interaction (Douglas, 1991: 97-112). David and Marquis (2005) quoted in Scott 1995) points out that institutions not only consist of cognitive and normative structures but also have regulative structures and triggering activities that provide stability and meaning to social and economic behavior.

2. NEW INSTITUTIONAL ECONOMICS (NIE) AND ITS RESEARCH LINES

NIE, which noticeably differentiated from Neoclassical economics that failed to explain the extent to which institutions shape and constrain available opportunities, is sum up in four interrelated levels of social or institutional analysis by Joskow (2004). Neoclassical economics has been criticized by NIE since it failed to appreciate the extent to which institutions shape and constrain available opportunities. Under this framework, embeddedness refers to changing of basic social and cultural institutions over time while basic institutional environment consists of basic human rights, political systems, property rights and financial institutions. Institutions of governance arrange traded goods, services and labor among individuals. The last one, which is short term resource allocation, points out day to day operation of the economy focusing prices, wages, costs and quantities. As indicated in Table 1 by Leite, Silva & Afonso (2014), the NIE has a varying wide range of research lines which are main theoretical support, main research concepts and/or methods, definition of institutions and authors.

Table 1. NIE Research lines

Main Theoretical Support	Main Research Concepts and/or Methods	Definition of Institutions	Authors (years)
Property Rights	Transaction costs; Law and Economics.	Rules of the game that regulate agents’ actions;	Alchian (1961); Alchian and Demsetz (1973); Barzel (1989); Coase (1937, 1960); Demsetz (1967) and Williamson (1975; 1985); Postner (1981, 1992).
Property Rights-Law	Formal law.	Mostly defined by human intention.	Posner (1981, 1992).

Theory of Contracts-Firm Organization	Firm organization; Imperfect information.	Optimizing behavior is allowed (in agency theory)	Coase (1937, 1960); Grossman and Hart (1986) and Hary and Moore (1990).
Theory of Contracts-Agency Theory	Imperfect/Asymmetric information.		Hart and Holmstrom (1987); Jensen and Meckling (1976) and Stiglitz (1990).
Game Theory-Standard Approach	Game theory, more “static” and repeated games: agents may be fully rational.	Institutions may emerge spontaneously or “Rules of the game” previously defined by players.	Calvert (1995); Greif (1993; 1998b); Schotter (1981) and Shubik (1975).
Game Theory-Evolutionary Approach	Evolutionary Game Theory: agents have bounded rationality.	Institutions emerge spontaneously through self-organizing processes.	Aoki (1996, 2001); Axelrod (1984); Binmore (2001); Sugden (1989, 2004) and Young (1993).
Evolutionary Theory	Evolutionary dynamics, novelty, path dependency	Institutions as rules, patterns of behavior; Social rules; Customs, as well as Institutions.	Nelson and Winter (1982); Nelson and Sampat (2001) and Silverberg (1984).
Political Governance	Collective action problems solved by collective decision making; Interest groups impact on design of institutions.	Rules that are designed to govern collective action problems.	Axelrod (1997); Olson (1965; 1993) and Ostrom (1990).
Historical Perspective	Historical analysis of institutions, their evolution through time and impact on actual economic situation.	Rules of the game that are defined mostly by agents and which regulate relationships.	Davis et al. (1971); Greif (2005); Haber (1991); Libecap (1989) and North (1981, 1990, 1992).

Source: (Leite, Silva & Afonso, 2014)

3. INSTITUTIONAL POLITICAL ECONOMICS (IPE) AS A NEW ALTERNATIVE PROPOSAL TO NEW INSTITUTIONAL ECONOMICS (NIE)

With the emergence of views and different perspectives in the thought of corporate economics, a differentiation has emerged over time and corporate economics has been divided into two as “Old Institutional Economics” and “New Institutional Economics” (Yay, 2018:2). New institutional economics is a school of economics, which indicates the importance of institutions in economic life in its shortest form. It is a multidisciplinary approach that tries to explain and understand the institutions such as government, law, market, family, traditions that we face in our daily lives by bringing together various fields of social sciences such as economics, history, sociology, political science, business, anthropology and law. The purpose of the new corporate economics approach is to reveal what institutions are, how they occur, what they serve, what they change and have been corrected (Klein, 1999: 456).

Ha-Joon Chang suggested that overcoming the limitations of discourse on the role of the state in the neo-liberal mold could not be achieved by seeking more intrusive models within the neo-liberal mold. However, he claimed that he could carry institutions and policies to the analytical core only by breaking this pattern and developing an alternative framework (Chang, 2002). This model has suggested a management and governance framework that it is not aware of as meticulously and naturally as a precondition. Chang proposed to call the institutional political economy (IPE). The market has determined how state and political analysis differs from what is presented by neo-liberal discourse.

However, the political economy of IPE goes further than its neo-liberal counterpart. It emphasizes the fundamental political nature of the market and applies the logic of political analysis not only to the analysis of the state but also to the market analysis. However, the institutionalization of IPE goes much further than that of NIE. Diversity is the emphasis of institutions on the temporary priority of individuals (rather than the temporal priority of individuals on institutions, as in the NIE). In addition, it does not see institutions as simply restricting individual motivations (Chang, 2002).

Chang said that the IPE that he proposed expresses an "institutionalist" approach. However, Chang does not accept the New Enterprise Economics (NIE) type, perhaps it may have initiated a process of development of the old tradition in the classical works of writers. Herbert Simon is sometimes referred to as the old Corporate Economy Her. In this sense, it is different from the NIE in a number of attributes, but most importantly, it restricts the institutions not only on the behavior of pre-formed and unchanging individuals as in the NIE, but also as the shaping of individuals themselves. (2002).

4. THE ROLE OF INSTITUTIONS IN THEIR PERFORMANCE FOR THE LONG-RUN ECONOMIC GROWTH

The role of geographical location in the development process of both cities and countries has been in the area of debate by economists since the highly influential papers issued by Gallup et al., (1999); McArthur and Sachs (2001); Sachs (2001) and Acemoglu et al., (2002). Generally, the literature in this domain has demonstrated varying roads of transmission of geography to the development (Percoco, 2011). McArthur and Sachs (2001) commented on findings that their evidence is likely limited by inherently small sample of ex-colonies and limited geographic dispersion of the countries studied by McArthur (2001). Sachs (2001) has drawn attention to the countries that are located in both temperate and easily accessible to the sea based trade almost everywhere achieved a very high measure of economic development. It is also recommended by Sachs (2001) that for countries at the tropical ecozones a concerted international effort to develop ecosystem and institutional set up of especially health and agricultural technologies would be beneficial. A similar view was held by Kim and Law (2012). According to their findings, political centralization affects spatial economic development and centralistic institutional foundations are more effective than decentralized structures.

Early studies carried out by Douglas (1991); Dawson (1998); Acemoglu et al. (2002:2005); Glaser et al. (2004); Gwartney et al., (2006); Dollar & Kraay(2003); Chang (2011) and James (2012) pointed out the role of institutions on the long run economic growth. Easterly and Levin (2002); Rodrik et al.(2002) and Bloch and Tang(2004) focused on the quality of institutions and location in their studies.

Acemoglu et al (2002) analyzed the role of institutions on the long run economic growth from the years of 800's to 1850 in his research "*The rise of Europe: Atlantic trade, institutional change and economic growth*". The data used in the model are income per capita and urbanization based on urban population. According to the research, it was observed a noticeable gap between monarchy-ruled countries and non-monarchy-ruled countries. Britain and the Netherlands which were not ruled by monarchy are the countries that highly benefited from Atlantic trade. But Spain and Portugal which were ruled by monarchy could not

use trade opportunity in Atlantic. We need to define a clear distinction between pre-industrial term and industrial term, even neoclassical term starting 1950`s as main concept of development rapidly changed such as clustering; venture capital and new actors such as China, Brazil and South Korea appeared in world trade. If we just consider the growth which is composed of good institutions, it might not be completely seen the complete picture. For example, China which lacks good institutions, ruled by dictatorship stepped into new age in the last dozen years. However, countries governed by totalitarian dictatorships may fall behind in economic development by giving an example from Russia (Roland, 2004: 109-131).

Dawson (1998:603-619) assumed a production function that exhibits constant diminishing returns to each factor individually, in the panel analysis, the sample period 1975-1990 is divided into three five-year sub periods, such as 1976-1980, 1981-1985, and 1986-1990. As a result of this study, it was evidenced that there is an investment channel between institutions and investment. Both affect each other in a positive way with the condition of economic freedom, civil liberties and secure property rights. But this has been challenged by Gwartney et al., (2006), who argue that there is no clear positive relationship between economic freedom and long-term economic growth. One of researches done on effect of institutional coordination on economic growth tested the impact of economic coordination and institutional coherence on economic growth. Empirical evidence revealed that there exists a U-shaped relationship between institutional coordination and macroeconomic performance in sense of economic growth (Vural, 2007)

5. IMPROVING THE PERFORMANCE OF THE GOVERNMENT AND STATE INSTITUTIONS

In the last century, the role of the governments in the economy and its share in national income has increased significantly. With the advent of industry 4.0, smart cities and digital e-governments, the qualitative issues have come to the fore regarding the role of the government; productivity, performance and effectiveness. Considering the fact that there is not a single recipe for a more effective and high-performing government institutions, many studies have taken the necessary measures to increase the capacity of the government and its institutions, to ensure the efficient functioning of the public sector and to pave the way for social welfare and various proposals of civilization have been presented.

The World Bank Development Report, which focused 22 years ago on the role of the state in economic development, had proposed a two-stage strategy to make the role of the state more effective (World Bank, 1997):

1. Focus on harmonizing state activities with the capacity or capabilities of the state.
2. To try to increase the capacity of the state through the strengthening and revitalization of public institutions.

Although the state has the power to perform certain functions 'effectively', it can fail to achieve 'effective' results in line with the demands of the society. Therefore, in the first stage of the strategy, it is aimed to prevent the state from doing more than it can with a small amount of resources, to focus on its basic functions and to ensure that it can be effective in this way. Therefore, it is critical at this stage to determine what the state will do and what it will not do.

The first step is to determine the basic functions of the state correctly. The main tasks of the report are as follows: establishing the legal system, ensuring political and macroeconomic stability, investing in basic social and infrastructure services, protecting vulnerable groups and protecting the environment. According to the report, in order for development to be stable and sustainable, the state should not deviate from the basic social priorities.

In the second stage of the strategy, it is underlined that it would be wrong to accept the capacity and capabilities of the state as data and that it is possible to develop this capacity. This can be achieved by

improving the state institutions. Many countries are trying to restructure institutions for a more effective public sector; however, this is not as easy as it seems. One of the main reasons for the difficulty is political tendencies.

In order to overcome the rigidity of change and to solve sophisticated socio-economic problems, the report sets out three main mechanisms:

a. Effective rules and restrictions: One of the steps to be taken in the fight against corruption is to increase the penalties to be imposed on persons and institutions involved in corruption. For this purpose, it is important to make the laws more effective and to make them effective. First of all, the existence of an available rent is necessary for corruption to occur, and measures that limit the possibilities of rent should be taken. For example, restrictions on foreign trade should be reduced, government-based barriers or difficulties in the entry of new firms into the markets should be mitigated, and state enterprises should be privatized.

b. Pressure to increase competition: To ensure that civil servants work in the competitive environment by developing a merit-based promotion system and reasonable salaries within the state institutions, which prevent nepotism in the recruitment process; Furthermore, creating a competitive environment in the production of public goods and services plays an important role in achieving more effective results in the activities of the state.

c. Increasing the importance of public voice, governance and participation: In the process of policy making and implementation, states that work with and cooperate with the recommendations of the business world and the public obtain more effective and successful results.

Especially for developing countries, opening up to the globalizing world brings opportunities and risks. For example, countries are exposed to external shocks caused by prices or capital movements. This situation criticalizes the role of the state, and the state plays an important role in resisting these shocks and ensuring that the public can benefit from the opportunities offered by world markets. However, there are at least five main objectives for states to require international cooperation: to prevent regional crises, to ensure global economic stability, to protect the environment, to promote knowledge production and research.

Stiglitz (1998) also refers to the steps that should be taken to improve the performance of the state and its institutions, or of the public sector. Stiglitz provides five proposals for this purpose and discusses them (Stiglitz, 1998: 11-22).

The first of these proposals, as stated in the World Bank Development Report, is to restrict state intervention in areas where personal interests or private interest groups are known to be effective, even if it is difficult to block the search for rent. The important question to be asked here is whether the benefits that arise from the abolition of state intervention in these areas will be more than the costs to be incurred. If the benefits exceed the costs, avoiding the intervention will have effective consequences.

The second proposal is to support state activities aimed at increasing competition and to restrict state activities that prevent or restrict competition. The state's removal of barriers to competition and serving as arbitrators in the markets will ensure a more efficient functioning of the markets.

The third proposal is to ensure that the activities of the state and state institutions are made confidential and transparent. Preventing the free movement of information and disclosure is often aimed at preventing external participation in decision-making processes, which increases the influence of public officials in decision-making processes and the possibility of rent. Making the existing rules and regulations transparent and sharing the information with the society is very important for the fight against corruption. Transparency

in policy and decision-making processes gives policy makers less initiative to influence the well-being of certain groups (Tanzi, 1998).

Stiglitz's *fourth proposal* is to encourage and encourage the private sector in the production of public goods, either through its own efforts or through non-governmental organizations; thus, it enters into a competitive environment and disciplines itself. Acting in cooperation with civil society organizations is important in terms of reflecting the views of the wider community in political decisions or projects.

The *final proposal* is that the state balance the expertise, democratic representation and accountability. Expertise is of great importance in terms of decision mechanisms. In participatory democratic systems, decisions may not reflect the expert's views on the issue, and thus the targeted results may not be achieved (or most effectively achieved).

Tanzi (1997: 18-19), on the other hand, discusses the following points in relation to the improvement of the performance of the state, except for those mentioned above:

1. *The state should not avoid privatization movements* that may reduce the salary burden paid to the public sector, reduce the subsidy burden provided for public enterprises and make economic functioning more efficient. Privatization is an appropriate policy, especially in countries where the interest burden on public debts is high, considering that the proceeds from privatization and some of these debts can be paid. Privatization movements generally increase the efficiency of the economy by opening the markets to the private sector (provided that an appropriate competitive environment is ensured). Moreover, corruption is reduced by privatization.

2. *The state should stop any price control and support of certain products.* Price controls always have detrimental effects on markets, create inefficiencies in resource allocation and allow rent-seeking. Subsidizing some basic goods can lead to significant waste.

3. *The state should minimize the impact of investments and economic activities* through regulation and incentives. Instead, it should make the economy open to foreign competition in order to increase the efficiency of the markets; increase competition by removing barriers to market entry; eliminate unnecessary and inefficient regulations. Some of these regulations only provide power to the state and bureaucrats and damage the functioning of the economy. On the other hand, while some social goals require regulations (regulations regarding minimum wages, working hours, etc.), some social goals can be achieved in more effective ways than regulations.

6. INSTITUTIONAL DEVELOPMENT THROUGH URBANIZATION

It was found by longitude and latitude measures that geography has no significant effect and that the quality of contemporary institutions critically leans on the quality of past institutions historically evolved and that these affect current development of existing institutions (Percoco, 2011: 143 There are three important points which seem missing in paper of Acemoglu et al (2002), who has contributed valuable researches in this field.

Firstly, the model almost never put emphasis on the social capital even though it was mentioned about the religion which is one of the important instruments of shaping the culture. So, some geography may be luckier than others concerning existing embodied knowledge through historical transformations of institutions. Second, urbanization was used in the model as a proxy. In the term of pre-1850 describing pre-industrialization, the Atlantic trade was dominantly based on agricultural products, natural resources and textile sector. Even though urbanization was selected as an indicator for the role of urbanization on trade and growth, Thunen's theories of land use and industrial agglomeration were not reflected at all in the Acemoglu's papers and in the other researches as well (Fujita, 2011: 8). Last point is closely related with the data used in the model. For instance, in Albania, the rate of urbanization and GDP per capita in 1800

and 1850 are 28, 21.8 and 636, 871, respectively. This shows that urbanization had no effect on GDP per capita on the contrary to their hypothesis. However, it is widely accepted that geography is an important indicator on incomes via its effect on agricultural productivity and morbidity (Rodrik et al. 2002: 13). Urbanization has obviously led to many shanty and slums in cities and widen the gap between regions in both developed and developing world since 1970's if it is considered in last three or four decades (Corbridge, 1995: 256-268). If it is reflected in the EU policies after Second World War, it is clearly seen the countryside has been securely protected and attracted rural people not to migrate to urban areas. Though there are mega cities in U.S., the EU has relatively small cities and industry is agglomerated in small towns. This is more feasible and applicable to measure the effect of urbanization on long term economic growth.

The idea that difference in institutions and government polities largely depends on differences in income per capita across countries is shared both by many economists and social scientists. Since the determinants of institutions and attitude of governments towards economic progress is not widely accepted, it becomes difficult to isolate exogenous sources of variation in institutions to conjecture their effect on performance. Increased wealth of countries may have created higher demands for institutions (Chang, 2011: 495). For instance, the European colonization carried all the institutional structure in Canada and New Zealand. However, this is not in general true for institutions which are transferred from developed world to developing world have been successful. The viewpoint of society and absorbing the innovation could vary society by society. North Korea and South Korea is the best example for this (Acemoglu et al., 2005: 390). Geography and culture which include embodied knowledge as well as embracing innovations are also quite important for development of institutions. Institutional changes are not always welcome by some interest groups such as landlords, dictators who wish to hold the reins of power (Acemoglu et al., 2002: 2). This shows a lack of democracy which flourishes institutions in a country. Even so, some cross-country regressions show that there is no effect of democracy on growth (Alesina & Perotti, 1994: 351-371, quoted in Helliwell, 1992). But evidence showed that having good institutions are a significant determinant for economic growth (Dawson, 1998: 603-619).

7. INSTITUTIONAL QUALITY AND PRODUCTIVITY THROUGH ENTERPRISE GOVERNANCE

As Percoco (2011) has studied over development of Italian cities (1300-1861). We cannot say every institute has a direct positive impact on economic growth. However, the quality of institutions is an important determinant of economic growth (Gwartney et al., 2006). What quality of institutions in World Bank Guideline are defined as they have voice and accountability, political stability, rule of law, control for corruption, regulatory quality and government effectiveness? This could be only a determinant for better institutions under no assumption of "one size fits all". The better institutional quality becomes, the more long-run economic growth rate is enhanced with the technical changes (Bloch & Tang, 2004: 250). Dollar and Kraay (2003) also showed the importance of institutional quality on per capita income in a large cross-section of countries.

The critical point here is whether or not a country having low GDP is able to create higher quality of institutions. Because, creating higher quality institutions may costs a lot for a developing country. For example, a developing/underdeveloped country is struggling with rural poverty and the government decides to import a successful rural policy from x country. Importing this policy is not enough for this country. She needs to establish relevant institutions which implement this policy and qualified staff who run this system. What it means for a country is to more shorten the budget and result in more poverty due to the unsuccessful implementation. We cannot even say that a country which has abundant natural resources such as oil, natural gas etc., establishes easily these institutions as these require embodied knowledge, culture and

openness which have been transferred from past to present. Another example can be given from China, which has no quality of institution. She succeeded to become a world power with the last two decades policies. This is referred by some economists as an example of no remarkable effect of institutions on the long-run economic growth. But needless to say, China has a very rich embodied knowledge from past to present. This is argued by Polanyi (1958) that knowledge of things is made of acquired experiences (Polanyi, 1958:15).

In the last two decades, most of the theories have been found not applicable as the relatively poor countries grew faster nearly three times than rich countries. Rostow's development theory best explains the present conditions of the developing world. They had traditional society, then passed the pre-conditions for take-off, now they are taking off, the next step driving to maturity and reached to age of high mass consumption (Thirlwall, 1994). Productivity is a dynamic function of the human populations of laborers, available resources, and capital accumulation that funds governance and management through a nonproductive elite class (Kaiser & Roumasset, 2014). It is the innovative reforms at management and governance mind set of individuals that trigger quality and productivity of institution and hence improve development of countries. The characteristics of the environment in which citizens interact with each other and with state institutions are a fundamental factor underlying these variations. Therefore, implementing policies correctly may not be enough for successful development alone. Good governance and consultation is necessary to ensure that governments are truly committed to the promises they make to their citizens (Lahera & Cabezas, 2000: 1090).

Although the classic process in the field of law and economy is well controlled by spot markets where the identity of the parties is insignificant, things become more complicated as buyers and suppliers become dependent on each other. This historic rule was known as a homogeneous commodity trade in a market with a large number of buyers and sellers (Lahera & Cabezas, 2000: 1090).

Governance is summarized as follows on:

- The process of establishing a visible, clear and enlightened policy (ie, a transparent process);
- A bureaucracy adorned with professional ethics;
- Be responsible for the acts of the executive body of the government;
- A strong civil society presence in public affairs;
- Treat everyone under the rule of law.

The World Bank Global Governance Commission has defined the concept of governance as the sum of the many ways of managing the common relations between individuals and institutions, the public and the private sector. It should therefore be a continuous process in which conflicting or different interests can be accommodated and therefore joint action can be realized. Governance includes regulatory authorities and regimes to ensure compliance with legislation. In addition, it requires the existence of informal arrangements that people or institutions agree or perceive. The relationship between the political and institutional aspects of governance is defined as follows: A key feature of the institutions promoting growth is that they give the intermediaries a voice, a share in the system. In doing so, they increase social benefits or, conversely, reduce the amount of self-interest seeking. This view puts an emphasis on the input aspect of the institutional development process and the development literature, which is based on almost exclusively material results or numerical outputs of institutions (Lahera and Cabezas, 2000:1091).

Since quality is a must for institutions to survive in global competition there have to be stringent and structured approach. For the quality to be an embedded and intrinsic faculty of institutions there should be an integrated and engineered process management both for governance and management of institutions. A very detailed example for management and governance processes to be aligned with stakeholder needs of

value creation is given by COBIT-5 as is shown in the figure below that shows the complete set of 37 governance and management processes within COBIT 5 (ISACA, Enabling Processes, 2012).

COBIT 5 is the last product of the series, emphasizes the concept of “corporate IT governance”. As a result of the support of BDDK, the Turkish banking sector has been closely following the COBIT framework for a long time and trying to become harmonized. It is obvious that the BDDK’s regulations and studies have contributed significantly to the support of the business activities of information technologies in the Turkish banking sector, information security and continuity. Banks have made major institutional improvement in IT governance since 2006, especially when these efforts were launched.

The main innovation in COBIT 5, published in June 2012; management and governance concepts are separated from each other and handled in different processes. In the new process model, a new process model is introduced, which provides an integrated handling of corporate governance and IT governance. In this context, COBIT 5 provides an overview of the terms "governance" and "management" as follows:

- Governance enables the evaluation of stakeholders' needs, situations and preference rights in determining business objectives; guides through prioritization and decision making; monitors compliance and performance with agreed directions and goals.
- The management carries out planning, construction, processing and monitoring activities in line with the direction determined by the governance in order to reach the business objectives. Separation of management and governance issues is also reflected in the new process model of COBIT 5.

In the previous version, the control objective of “Providing IT Governance” under the article ME4 appears as a new domain under the name of “Evaluation, Guidance and Monitoring (EDM)” in the new model. If it is responsible for all control objectives in this domain, it is determined as the Board of Directors. COBIT principles to be taken into consideration in the implementation of governance and management practices are taken to a higher level with COBIT 5 to cover the whole business. In this context, we can define the five basic principles of COBIT 5 as follows:

- To meet the needs of stakeholders.
- Covering the business from end to end.
- Implementing a single integrated framework.
- Taking an integrated approach.
- Separating governance and management.

As can be clearly seen from these principles, COBIT has become a framework that concerns the entire business and its stakeholders, rather than being the subject of IT. The new COBIT consolidates the previous COBIT 4.1, Val IT 2.0 (key management practices to get the best value out of IT investments) and Risk IT (IT risk management) frameworks into one integrated framework. In doing so, it seems to be in contact with standards and best practices such as ITIL and ISO 27001. In other words, ISACA says, "Everything you need for corporate IT governance is here."

Another innovation brought by COBIT 5 is that it contains more detailed and guiding information in terms of target / measure and input / output. The new COBIT includes goals and measures on the basis of the organization, process and control goal (or management and governance practice, as it is called). In addition, inputs and outputs are defined for each management application. In addition, the responsibility assignment charts (RACI charts) are detailed to cover more of the business units, allowing the responsibilities to be followed more clearly and understandably. As a result, COBIT 5 is more understandable and guiding than

before as a guide to better governance. Perhaps one of the most curious and interesting topics of COBIT 5 was the subject of change brought to the process maturity level model (PCM - Process Capability Model). The new COBIT leaves the previous CMM-based maturity model approach completely, moving to a new model based on ISO / IEC 15504.

CONCLUSIONS

Under the rapidly changing conditions of today's world, the place of the state in the economy and its importance in economic development naturally differ from its place and importance in the historical process. In a world where economies are developing and becoming more open, new ones are added to technological advances, information is transmitted much faster and the globalization is becoming more and more global, the state should assume a more important and skillful guiding and regulating role. The private sector, on the other hand, should be prepared to carry greater responsibilities in many areas, such as health, education and infrastructure, which have been largely the responsibility of the state in the past.

When the studies conducted, the reports prepared and the statistical analysis performed are examined, it is seen that the state is vital for economic growth and development. The state fulfils functions such as establishing the legal system, providing necessary infrastructure services and public goods, taking measures to correct market failures, eliminating inequalities in various fields and securing social welfare, defending the country and stabilizing the economy; It determines the policy tools to be used in achieving the targets and implements the policies.

While it is stated that a state that operates effectively with its institutions and laws affects economic development positively, it is a fact that there is a possibility of failure of the state and that there are examples in history. For this reason, today, the state is a monopoly in the production of goods and services, leading the investments as the main entrepreneur and acting as a determinant in the markets; cooperating with the private sector and other organizations of society; providing coordination and information transfer; eliminates barriers that may adversely affect the functioning of markets in their own case; encourages competition and establishes rules to prevent contradictions; creating appropriate environment and conditions for investments and making arrangements for this purpose; investing in human capital and technology; ensuring equality in society on issues such as education and health, and paves the way for reforms in areas where necessary; working to ensure social welfare, political and economic stability; and appropriate policies for growth and employment growth.

A state that is aware of these responsibilities and duties, is well organized with its institutions and employees and has a transparent structure, is not an obstacle to development but rather as a driving force in the development process; in short, it is at the center of economic and social development. Increasing the quality of governance to facilitate economic development and raise per capita income is known to be an important problem for about 6 billion of the 7 billion inhabitants in the low and middle-income countries. The quality of governance for this large mass of the world can significantly differentiate in terms of facilitating long-term sustainable economic growth and improving welfare (Gani, 2011, p. 20).

Technology from other cultures can provide a large increase in the knowledge fund of the borrowing culture. However, Bush (1987) maintained this argument, which argues that progressive transfer institutional changes are necessary in order to establish new technology for the success of technology transfer from advanced technology to advanced economies. Otherwise, it will significantly affect the ability of culture to adopt and distribute technology. Institutions devoted a lot of time to the development of institutions and that they could not be copied or transcribed in some societies. In general, it can be valid where they seem good, especially in other societies that need them. In good governance, any reform or improvement must be raised in its natural environment. Institutions can be trained in their own ecosystems and can work most effectively if they were originally developed.

The technologies of the agricultural and industrial era have also increased the speed of human development, but the speed of both is proportionally below the communication and information technologies. Because the way that humanity has come together with the combination of communication and information technologies has increased in millions. The effects of information technologies on individuals and institutions can be listed as follows:

- Increased Market Activities
- Individual capability
- Effective Individual Communication
- Maturity of processes in line with organizational goals and strategies
- Increased Horizontal Relations Between Institutions
- Networking and promotional activities

Each change brings about positive and negative results, and creates the opposite of the supporter. Information technologies have started to affect all areas of social life and will become more widespread. From the economy to education, from the health to the defense industry, from everyday life to the public sphere, information technologies will influence the formation of a new structure. From the perspective of organizations only, information technologies cause changes in the industrial structure, bring competitive advantage and create new business opportunities.

Nowadays, it is possible and essential to make it easier and faster to decide what is best for the business by making use of this technology through industry 4.0 applications. As a result, the companies that follow the change in information technologies and succeed in implementing it are inevitable to establish a superiority in competition. It is clear that businesses will not be able to use their scarce resources efficiently if they do not take advantage of the opportunities provided by this technology provided that they have integrated their IT and business processes aligned with their respective management and governance model.

In this paper, we analyzed the critical role of institutions on long term economic growth. The related literature shows that longer run economic growth cannot be explained by a few data such as urbanization and GDP. For the pre-industrial term, using data of the populated areas instead of urbanization could be a determinant for economic growth but we cannot exactly say the same argument for Neo-classical term as urban areas have created many shanty towns in developed and developing world such as urbanized Latin American countries. The urban areas can only be compared with rural areas with respect to social welfare instruments. The models show that there is a strong relationship between the quality of institutions such as property rights, efficient rule of law, bureaucracy and transparency on the long-term economic growth. However, some researchers prove that there is not always a linear relationship between institutions and economic growth. In literature, there is a general acceptance of institutions` role on the longer-term economic growth in a positive way. There is also always an opposed argument for the less effect of institutions by generally giving examples from Asian countries like China. But there is always a missing point that most of the economists have avoided to mention is the embodied knowledge of China dating back. The last thing that it should be underlined is that the policies of “one size fits all” have lost their validity with the neo-classical growth models. Culture, traditions, tacit knowledge, openness to innovations is the outstanding points in new century.

As a specimen of good governance model for institutions, the COBIT-5 is the best framework that handles both governance and management together with aligning of both business and IT enterprise objectives and

stakeholder needs for economic growth toward the new innovative dynamics and ecosystem of industry 4.0.

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GENİŞLETİLMİŞ ÖZET

Günümüz dünyasının hızla değişen koşulları altında, devletin ekonomideki yeri ve ekonomik kalkınmadaki önemi doğal olarak tarihsel süreçteki yeri ve öneminden farklıdır. Ekonomilerin geliştiği ve daha da serbestleştiği küresel bir dünyada, teknolojik gelişmelere sürekli yenileri ekleniyor, bilgi çok daha hızlı aktarılıyor ve küreselleşme giderek daha yaygın hale geliyor. Bu nedenle de devletin ekonomik aktör olarak rolü daralırken kural koyucu, gözetleyici ve hakem olarak devlet daha önemli ve usta bir rehberlik ve düzenleme rolü üstlenmek durumunda kalmaktadır. Öte yandan, özel sektör, geçmişte büyük ölçüde devletin sorumluluğunda olan sağlık, eğitim ve altyapı gibi birçok alanda daha fazla sorumluluk üstlenmeye ve sektörel düzenlemelere uyma noktasında hazırlıklı olmak durumundadır. Bu makaleyle, kurumların uzun vadeli ekonomik büyümeye ve özellikle de kurumların kalitesine, kurumsal ve BT süreçlerinin yönetim yapısına entegrasyonu ile sürdürülebilir olumlu etkilerini sağlayacak bir model bulmaya odaklanılmaktadır. Çalışmanın metodolojisi, daha önce başkaları tarafından yayınlanan ikincil literatürün gözden geçirilmesine ve kurumların değer yaratması için COBIT-5 kurumsal yönetim çerçevesini kullanarak modellemeyi araştırmaya dayanmaktadır.

Tarım ve sanayi dönemindeki teknolojiler de gelişme hızını arttırdı, ancak her ikisinin de hızı, iletişim ve bilgi teknolojilerinin orantılı olarak oldukça altında kalmaktadır. Çünkü insanlığın iletişim ve bilişim teknolojilerinin birleşimi ile birleşmesi milyonlarca artmıştır. Endüstri 4.0 uygulamalarıyla da bu yenilikçi teknolojiden yararlanarak iş için neyin en iyisi olduğuna karar vermeyi kolaylaştırmak ve hızlandırmak mümkün ve zorunlu hale gelmiştir. Bilgi teknolojilerindeki değişimi izleyen ve uygulamada başarılı olan firmaların rekabet üstünlüğü sağlamaları kaçınılmazdır. İşletmelerin, BT ve iş süreçlerini ilgili yönetim ve yönetim modelleriyle uyumlu hale getirmeleri koşuluyla bütünleştirmeleri koşuluyla, bu teknolojinin sunduğu fırsatlardan yararlanamadıkları takdirde, kıt kaynaklarını verimli kullanamayacakları açıktır. Bu nedenle COBIT gibi iletişim ve bilişim çerçeveleriyle entegre bir kurumsallaşma çerçevesinin uygulanabilirliği tüm sektörler açısından önem arz etmektedir.

Bu makalede kurumların uzun vadeli ekonomik büyüme üzerindeki kritik rolünü de analiz etmeye çalıştık. İlgili literatür, daha uzun süreli ekonomik büyümenin, kentleşme ve GSYİH gibi birkaç veriyle açıklanamayacağını göstermektedir. Sanayi öncesi dönem için, kentleşme yerine nüfuslu alanların verilerinin kullanılması ekonomik büyüme için belirleyici olabilir, ancak Neo-klasik terim için aynı argümanı tam olarak söyleyemeyiz. Kentsel alanlar, yalnızca sosyal yardım araçları açısından kırsal alanlarla karşılaştırılabilir. Modeller, mülkiyet hakları, etkin hukuk devleti, bürokrasi ve uzun vadeli ekonomik büyümede şeffaflık gibi kurumların kalitesi arasında güçlü bir ilişki olduğunu göstermektedir. Bununla birlikte, bazı araştırmacılar, kurumlarla ekonomik büyüme arasında her zaman doğrusal bir ilişki olmadığını kanıtlamaktadır. Literatürde, kurumların uzun vadede ekonomik büyüme üzerindeki olumlu yönde olumlu bir etkisi olduğu kabul edilmektedir. Vurgulanması gereken son şey, “herkese uyan tek beden” politikalarının neo-klasik büyüme modelleriyle geçerliliğini yitirmiş olmasıdır. Kültür, gelenekler, kurumsal örtük bilgi, yeniliklere açıklık, kendi özel koşullarına uyarlama ve teknolojik rekabette kurumların öncülüğü yeni yüzyılda göze çarpan noktalardır.

Hem ekonomi hem de işletme bilimlerinin çok disiplinli bir özelliğine sahip olan çalışma yedi ana bölüme ayrılmıştır. Yeni kurumsal iktisat ile ilgili bir karşılaştırma yapan Eksik Kurumsal Ekonomi (OIE) ve Yeni Kurumsal Ekonomi (NIE)'ye bir giriş sağlayan giriş bölümünü kapsayan ilk bölümden sonra ikinci kısımda; kurumlar ve NIE ile ilgili akademik araştırmanın tarihsel gelişimini vermekte; üçüncüsü kısaca kurumların kritik rolleri hakkında bazı temel bilgileri ortaya koymakta; dördüncü kısımda, bazı ekonomistler tarafından yapılan uzun vadeli ekonomik büyümenin rolü konusunda araştırma kurumlarının rolünün bazı bulguları ve kritik noktaları ile genişletilmekte; beşinci kısımda, uzun vadeli ekonomik büyümedeki kurumların

kalitesi üzerinde çalışmayı genişletmekte ve altıncı kısım olarak COBIT-5 modelinin kurumsal yönetim ve yönetimi için benzersiz ve esnek bir model olup olmadığını araştırmaya çalışılmakta ve son bölüm ise bulgular ve önerilerle sona ermektedir.