



## **Master Thesis**

# **Impact of the Institutional and Macroeconomic Environment on Business**

*Study programme:* N0413A050008 Business Administration  
*Study branch:* Management of Business Processes

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Department of Foreign Languages

Liberec 2024



## **Master Thesis Assignment Form**

# **Impact of the Institutional and Macroeconomic Environment on Business**

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*Identification number:* E22000555  
*Study programme:* N0413A050008 Business Administration  
*Specialization:* Management of Business Processes  
*Assigning department:* Department of Economics  
*Academic year:* 2023/2024

### **Rules for Elaboration:**

1. Determination of objectives and formulation of research questions.
2. Setting the theoretical background and concepts.
3. The significance of a quality institutional environment and its impact on business outcomes:  
A Case Study.
4. Formulation of conclusions and recommendations.

*Scope of Graphic Work:*

*Scope of Report:* 65

*Thesis Form:* printed/electronic

*Thesis Language:* english

### **List of Specialised Literature:**

- ACS, Zoltan; Saul ESTRIN; Tomas MICKIEWICZ *et al.*, 2018. Entrepreneurship, institutional economics, and economic growth: an ecosystem perspective. *Small Business Economics*, vol. 51, no. 3, pp. 501-514. ISSN 1573-0913.
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*Date of Thesis Assignment:* November 1, 2023

*Date of Thesis Submission:* August 31, 2025

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## ***Anotace***

Cílem diplomové práce je prozkoumat, jakou roli sehrává makroekonomické a institucionální prostředí při podpoře ziskovosti firem, a tedy v posilování celkové ekonomické výkonnosti země. Institucionální rámec a makroekonomické podmínky ovlivňují rozvoj a úspěch společnosti a následně ovlivňují celkový stav ekonomiky. Diplomová práce se pomocí statistické analýzy ověřuje, jak spolu souvisí institucionální hodnoty, makroekonomické indexy a ekonomická výkonnost země. Diplomová práce hodnotí, jak robustní institucionální rámec jednotlivých zemích přispívá k odolnosti a růstu podniků, což zvyšuje produktivitu, inovace a konkurenceschopnost. Analytická část kvantifikuje vliv institucionální kvality na podnikatelskou a ekonomickou výkonnost prostřednictvím analýzy důležitých ekonomických ukazatelů, včetně HDP, HDP na obyvatele a míry hospodářského růstu. Diplomová práce formuluje doporučení tvůrcům hospodářských politik a vedoucím pracovníkům tak, aby bylo podpořeno příznivé prostředí pro udržitelný ekonomický růst. Závěr shrnuje poznatky o souvislostech mezi firemním úspěchem, institucionální kvalitou a ekonomickou výkonností dané

## ***Klíčová slova***

Institucionální prostředí, makroekonomické prostředí, prosperita firem, ekonomický rozvoj, produktivita, inovace, konkurenceschopnost, tvůrci hospodářských politik, udržitelný ekonomický růst.

## ***Annotation***

The objective of this master's thesis is to examine how the macroeconomic and institutional environments play a crucial role in supporting company profitability and, in turn, boosting the nation's overall economic prosperity. Understanding how institutional frameworks and macroeconomic conditions impact company development and success, in turn impacting the overall state of the economy, is the main goal of this study. The study will look at how institutional values, macroeconomic indices, and corporate prosperity are related using statistical analysis and comparative studies. In particular, the thesis will evaluate how robust institutional frameworks in nations support corporate resilience and growth, which boosts productivity, innovation, and competitiveness. The research attempts to measure the impact by analysing important economic indicators like GDP, GDP per capita, and economic growth rates. The research tries to quantify the effect of institutional quality on business and economic prosperity through the analysis of important economic measures, including GDP, GDP per capita, and economic growth rates. The research aims to offer practical insights for policymakers and business leaders to promote a favourable environment for sustained economic growth by clarifying how institutions and macroeconomic policies impact company results. In the end, the thesis seeks to further our knowledge of the relationships among corporate success, institutional quality, and national economic progress.

## ***Key Words***

Institutional and macroeconomic environment, Business prosperity, Economic development, Productivity, Innovation, Competitiveness, Policymakers, Sustainable economic growth.

## ***Acknowledgment and Appreciation***

I would like to take this opportunity to offer my heartfelt thanks to my master's thesis supervisor, ***Ing. Mgr. Marek Skála, Ph.D.*** for his mentorship, patience, and wisdom, which have played a pivotal role in the successful culmination of this academic pursuit, and I am deeply thankful to ***Mgr. Jiří Rozkovec*** for his generous guidance and support in navigating the complexities of the analytical framework, contributing significantly to the rigor and depth of this thesis.

## ***List of Abbreviations***

<b><i>COC</i></b>	Control of Corruption
<b><i>CSR</i></b>	Corporate Social Responsibility
<b><i>EU</i></b>	European Union
<b><i>FDI</i></b>	Foreign Direct Investment
<b><i>GDP</i></b>	Gross Domestic Product
<b><i>HDI</i></b>	Human Development Index
<b><i>HDR</i></b>	Human Development Report
<b><i>PPPs</i></b>	Public-Private Partnership
<b><i>R&amp;D</i></b>	Research and Development
<b><i>ROL</i></b>	Rule of Law
<b><i>RQ</i></b>	Regulatory Quality
<b><i>SME</i></b>	Structural Equation Modelling
<b><i>SME's</i></b>	Small and Medium Sized Enterprises
<b><i>UNDP</i></b>	The United Nation Development Programme
<b><i>WGI</i></b>	The Worldwide Governance Indicators



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## ***Introduction***

The Institutions of the Government bodies works to maintain and enhance the values of governance like the maintenance of law and order, Control of Corruption, Regulatory Law, Absence of violence and terrorism and Political Stability results in good governance but they also contribute more to the prosperity of the nation, As the Institutional Values of the Institutions individually holds a notable impact on the Prosperity of the nation on the scale of economy and its Growth. A country's economic growth and stability is built by numerous small blocks of various domains and departments. The small blocks as the Institutional Environment where organizations abide to the governmental authorities with legal and regulatory requirements, respecting the cultural and normative influences and meeting the dependency for resources. So, the strong institutional values in the country will have positive impact on the prosperity of the nation and in the whole economy of the nation.

To sustain and enhance the economy of the nation, the institutional environment stands as the important factor which regulates and governances the regulatory law which keeps the citizens follow the code of ethics and values. This directly influence on the voice of accountability and control of corruption. Strong Institutional values also controls the law and order of the nation which avoids violence among the citizen which will result in harmony of the nation. Safe nation attracts more foreign investment. Which will lead to good employment and development of the nation.

The aim of this thesis is to prove the research assumption that a quality institutional environment causes a better macroeconomic environment, which creates a suitable framework for entrepreneurship and therefore the overall prosperity of a country.

The following research Questions are formed to support the assumption

1.What are the elements or parts of the Institutional and Macroeconomic Environment and their connection between them?

2. What are the key indicators of a quality institutional environment, and how do they influence the macroeconomic environment?

3. How does the quality of institutions, such as the legal system, regulatory framework, and government effectiveness, impact key macroeconomic indicators such as GDP growth, GDP per Capita and Social Indicators such as Human Development Index (HDI) and Income Inequality (Gini Coefficient)?

To achieve these above-mentioned goals, the following work structure was established.

In **the first Chapter**, the basic concept, birth, and evolution of institutionalism was introduced. growing on the concepts of Institutional theories and types of Institutionalism was discussed in detail. The Important concept of Institutional environment is introduced for the further structure of work.

**The Second Chapter** is the most detailed one which detail with all the required knowledge on the concepts of macroeconomic environment and its indicators, Business cycles which elaborates the participants on it, the government and it polices. The chapter walks the work through the concept of Institutional values and its impact on businesses and its elements. It also establishes the clear understanding about the Interaction between the institutional environment and macroeconomic environment. The entire theoretical study on all the involved subjects is conducted at this chapter.

The benefits and requirement of strong and good institutional values are discussed stating how the institutions will function with a good institutional value and what will it result to. The concept of institutional values impacts the growth of economy, and its prosperity of the nation is also discussed here with different horizons.

The analytical case study – **Third Chapter**, the indicators of Institutional values and Economic prosperity indicators (Macroeconomic indicators) are chosen and examined for the analytical part. Economic and social indicators are chosen to showcase the development of economy and individual of the country and Institutional Indicators are chosen to showcase the governance efficiency over different domains.

***The chapter four*** is the analytical part where the analytical research will be performed to show the relationship between the institutional and macroeconomic indicators. The research is performed in mathematical-statistical method of regression analysis. The results may vary from our statement on assumptions. If it varies, we will discuss how and why the scientific results varied from the theoretical assumptions.

# **1. Institutionalism**

Institutionalism constitutes a foundational perspective within social sciences, emphasizing the critical role of institutions in shaping human behaviour and societal outcomes. At its core, institutionalism posits that formal and informal rules, norms, and practices collectively form the structural framework governing social interactions and economic activities.

Formal institutions, comprising regulatory agencies, legislative bodies, and governmental structures, serve as the backbone of societal governance. These institutions establish clear rules, procedures, and standards, providing a framework for individuals and organizations to navigate their roles and responsibilities within society. Formal institutions imbue social interactions and business dealings with attributes of consistency, predictability, and accountability, essential for fostering trust and cooperation.

In parallel, informal institutions, such as cultural norms, traditions, and customary practices, exert a significant influence on individual behaviours and organizational dynamics. These unwritten rules and social conventions shape preferences, attitudes, and group behaviours, contributing to the formation of organizational cultures and social identities within communities.

Across various academic disciplines, including economics, sociology, political science, and organizational studies, institutionalism emerges as a unifying framework for understanding the complex interplay between formal and informal institutions and their impact on societal development. Scholars like North, Hall, and Taylor have elucidated the multifaceted nature of institutional arrangements, highlighting their role in shaping social dynamics and economic behaviour.

Importantly, institutionalism underscores the symbiotic relationship between institutions, behaviours, and societal outcomes. Institutions not only influence individual decision-making processes but also shape organizational structures and societal norms. By examining the interplay between institutions and behaviours, scholars gain insights into the mechanisms driving social and economic phenomena, including patterns of innovation, economic growth, and social equity.



Moreover, institutionalism emphasizes the dynamic nature of institutions, recognizing their capacity to evolve and adapt over time in response to changing societal needs and circumstances. This dynamic perspective underscores the importance of continuous institutional analysis and reform to address emerging challenges and promote inclusive and sustainable development.

Institutionalism provides a robust analytical framework for understanding the foundations of social order and economic development. By elucidating the role of institutions in shaping human behaviour and societal outcomes, institutionalism offers valuable insights into the mechanisms driving social and economic change, thereby informing policy interventions and organizational practices aimed at fostering inclusive and resilient societies.

## ***1.1. Historical Roots and Evolution***

The historical roots of institutionalism can be traced back to the works of early economists and sociologists who acknowledged the importance of institutions in economic and social life. Scholars like Thorstein Veblen, John R. Commons, and Wesley Mitchell laid the groundwork for institutional economics in the late 19th and early 20th centuries. It was during this period that the term "institutionalism" began to gain prominence as scholars sought to comprehend the intricate interplay between institutions, human behaviours, and societal transformation.

Historical advancements, scholarly discussions, and paradigm changes in the social sciences have all influenced the development of institutionalism. Institutional economics, which challenged neoclassical orthodoxy and highlighted the influence of institutions on economic behaviour, evolved as a unique method of economic analysis in the early 20th century. With an emphasis on concerns of market power, income distribution, and social welfare, academics like John Kenneth Galbraith and Gunnar Myrdal advanced the institutionalist approach in the middle of the 20th century.

Institutionalism had a rebirth in the second half of the 20th century as researchers from a variety of fields adopted institutional analysis to comprehend a broad range of social and economic phenomena. A turning point in the development of institutionalism was the emergence of new institutional economics, led by academics such as Douglass

C. North, Ronald Coase, and Oliver E. Williamson. By incorporating ideas from organizational theory, sociology, and political science, new institutional economics widened the focus of institutional analysis beyond that of traditional economics. Nowadays, the term "institutionalism" refers to a wide range of theories, each providing a distinctive viewpoint on how institutions influence social and economic behaviour. These theories include historical institutionalism, modern institutional economics, old institutional economics, and sociological institutionalism which explains the multiple horizons of its importance for dynamic functioning.

## ***1.2 Institutional Theory***

Institutional theory is the evolved version of old Institutionalism which serves as a foundational framework for understanding the intricate dynamics between organizations and their broader societal contexts in the modern era. Essentially, it exhibits the truth that organizations are not standalone entities but are deeply embedded within a network of social, political, and economic institutions, which significantly influence their behaviour, strategies, and outcomes (Scott and Davis 2015).

The relevance of institutional theory in comprehending organizational behaviour lies in its ability to clarify the mechanisms through which institutions utilize influence on businesses. Institutions provide the backdrop against which organizations operate, establishing the norms, values, and expectations that guide their actions (Zucker 1987). For instance, regulatory institutions establish the system within which businesses must operate to maximize efficiency, while cultural institutions shape societal perceptions and consumer preferences.

Moreover, institutional theory underscores the concept of legitimacy—the perceived appropriateness and acceptability of an organization's actions (Zucker 1987). Legitimacy is paramount for businesses as it impacts their relationships with stakeholders, including customers, investors, employees, and regulators. Organizations strive to achieve legitimacy by conforming to institutional norms and expectations, as doing so enhances their reputation, credibility, and access to resources, ultimately affecting their performance and success in the marketplace.

### **1.2.1 Perspectives within Institutional Theory**

#### ***Old Institutionalism***

Old institutionalism referred in historical sociology, emphasizes the enduring influence of past institutional arrangements on present organizational behaviour and outcomes. It evolved when it is researched on the historical evolution of institutions, tracing how established norms, rules, and practices shape contemporary organizational behaviour (March and Olsen 2006). The historical development of property rights and contract law was introduced and implemented. Where the legal institutions have deep historical roots and have evolved in response to societal needs and pressures. The establishment of clear property rights and contractual obligations during this period laid the foundation for modern business transactions, influencing how businesses conduct themselves in the marketplace. Even today, the legacy of these historical institutional arrangements continues to shape business practices and strategies, underscoring the enduring impact of past institutions on contemporary organizations.

#### ***New Institutionalism***

As time and trends evolve institutionalism has also evolved with new horizons empowering the needs. Emerging as a response to the limitations of old institutionalism, new institutionalism shifts the focus toward the cognitive and normative dimensions of institution (Palmer et al. 2008). The Institutionalists of that era called "New Institutionalists" have argued that the institutions are not static entities but are socially constructed and subject to change over time. They highlighted the role of cognitive processes and normative pressures in shaping organizational behaviour. The adoption of sustainable business practices and developed human resource management is a classic example of the updating of the era. New institutionalists have also argued that this shift reflects changing societal norms and values regarding environmental responsibility. As concerns about climate change and environmental degradation continue to grow, businesses are under increasing pressure to adopt environmentally sustainable practices to align with societal expectations and maintain their legitimacy. This illustrates how normative pressures embedded within institutions influence organizational behaviour and decision-making processes.

## ***Neo institutionalism***

Neo-institutionalism represents a complete synthesis of understandings from various social science disciplines, including sociology, economics, and political science (Scott 2008). Neo institutionalists seek to integrate micro-level and macro-level perspectives, examining how broader institutional contexts shape individual actions and organizational structures. This employs the influence of both formal and informal institutions on business practices. Formal institutions, such as government regulations and industry standards, establish the legal and regulatory framework within which businesses operate. Meanwhile, informal institutions, such as cultural norms and professional ethics, shape the behaviour and expectations of organizational actors. Neo-institutionalism underscores the interplay between these different levels of institutions, highlighting how they collectively influence organizational behaviour and outcomes.

### ***1.2.2 Key Concepts in Institutional Theory***

#### ***Institutional Isomorphism***

Institutional isomorphism, a central concept in institutional theory, refers to the tendency of organizations to adopt similar structures, practices, and norms due to pressures from their institutional environment (DiMaggio a Powell 1983). These pressures can manifest in various forms, including coercive, mimetic, and normative isomorphism.

#### ***Coercive Isomorphism***

Organizations often find themselves compelled to conform to external regulations and mandates imposed by regulatory bodies or government authorities (Boxenbaum a Jonsson 2017). For example, a manufacturing firm may adopt certain environmental standards to comply with regulations aimed at reducing pollution. While compliance may be necessary to avoid sanctions, it also aligns the organization with broader societal values related to environmental stewardship.

### ***Mimetic Isomorphism***

In uncertain or ambiguous environments, organizations may imitate the behaviours and practices of successful peers or competitors (DiMaggio a Powell 1983). This mimicking behaviour is driven by a desire to reduce uncertainty and gain legitimacy. For instance, a start-up company may emulate the organizational structures and strategies of established industry leaders to signal credibility to investors and customers.

### ***Normative Isomorphism***

Organizational behaviour is also influenced by prevailing norms, values, and beliefs within their institutional environment (Scott 2013). Professional associations, industry standards, and cultural expectations shape these norms. For instance, professional service firms may adhere to ethical codes of conduct to maintain their reputation and trustworthiness within their respective industries.

While institutional isomorphism promotes stability and legitimacy, it may also lead to homogenization and inertia, limiting organizational adaptability and innovation.

### ***1.2.3 Institutional Logics***

Institutional logics represent the underlying belief systems, values, and assumptions that guide organizational actions and decision-making processes (Thornton a Ocasio 2008). These logics are deeply ingrained within organizational cultures and reflect broader societal norms and ideologies.

Organizational behaviour is influenced by the dominant institutional logic within their environment. For example, a profit-oriented logic may prioritize financial performance and shareholder value maximization, while a community-oriented logic may prioritize social impact and community welfare.

Moreover, institutional logic is not static but evolves over time in response to changes in societal values, technological advancements, or regulatory shifts.

Organizations may navigate multiple institutional logics simultaneously, leading to tensions and conflicts between competing priorities.

#### **1.2.4 Institutional Environments**

Institutional environments encompass the broader social, political, and economic contexts within which organizations operate (Edelman and Suchman 1997). These environments consist of formal institutions, such as laws, regulations, and government policies, as well as informal institutions, including cultural norms, societal values, and professional standards.

Organizations are subject to various pressures and influences from their institutional environments:

- **Regulatory Pressures**

Organizations must comply with legal and regulatory requirements established by governmental authorities. Failure to comply may result in penalties or sanctions, undermining organizational legitimacy and reputation.

- **Cultural and Normative Influences**

Societal values, cultural norms, and professional standards shape organizational behaviour and decision-making processes. Organizations must navigate these cultural dynamics to maintain legitimacy and trust within their communities.

- **Resource Dependencies**

Organizations rely on external resources, such as capital, labour, and knowledge, from their institutional environments. Changes in resource availability or market conditions can influence organizational strategies and practices, necessitating adaptation and flexibility.

Understanding the institutional environment is essential for organizations to navigate external pressures, anticipate changes, and adapt their strategies accordingly. Organizations that are proactive in managing their institutional environments are better positioned to achieve long-term success and sustainability.

## **2. Macroeconomic Environment**

Macroeconomics, a fundamental branch of economics, delves into the aggregate behaviour of an economy, offering insights crucial for understanding its profound impact on businesses.

### ***Gross Domestic Product (GDP)***

At the heart of economic analysis lies Gross Domestic Product (GDP), a comprehensive measure of a nation's economic activity. Capturing the total market value of all goods and services produced within a country's borders, GDP serves as a barometer of economic health. Fluctuations in GDP not only reflect shifts in production and consumption patterns but also reverberate through the business landscape. Businesses closely monitor GDP trends to anticipate changes in demand, adjust production levels, and seize emerging market opportunities (Mankiw, 2016).

### ***Inflation***

Inflation, the gradual increase in the general price level of goods and services, carries significant implications for businesses across industries. While moderate inflation fosters economic growth by stimulating spending and investment, excessive inflation undermines consumer purchasing power and erodes market stability. Businesses navigate inflationary pressures by recalibrating pricing strategies, optimizing cost structures, and innovating to maintain competitiveness. Additionally, inflation expectations influence long-term planning, capital allocation decisions, and contract negotiations, shaping business strategies in dynamic economic environments (Weber & Wasner, 2023).

### ***Unemployment***

Unemployment, a key macroeconomic indicator, provides critical insights into labour market dynamics and economic performance. Persistent unemployment rates not only signify systemic weaknesses but also pose multifaceted challenges for businesses. Even amidst elevated unemployment levels, businesses encounter difficulties in sourcing and retaining skilled talent. Structural mismatches between job requirements

and available skills, coupled with sector-specific constraints, hinder recruitment efforts and impede workforce productivity. Addressing these challenges requires proactive talent management strategies, investments in training and development, and collaborative efforts to bridge skill gaps between education and industry needs (Kalkanci et al., 2019).

### ***Interest Rates***

Interest rates, controlled by central banks through monetary policy instruments, exert significant influence on economic activity and business operations. Changes in interest rates ripple through financial markets, affecting borrowing costs, investment returns, and consumer behaviour. Businesses monitor interest rate movements to gauge financing options, assess capital expenditure decisions, and manage cash flow dynamics. Furthermore, interest rate expectations factor into strategic planning processes, influencing corporate borrowing strategies, debt refinancing decisions, and investment allocations across diverse asset classes (Taylor, 1999).

## ***2.1 Business Cycles***

Business cycles reflect the recurring pattern of expansion and contraction in economic activity over time. Understanding these cycles is essential for businesses as they navigate through different phases and adjust their strategies accordingly.

During an expansionary phase, GDP grows, unemployment declines, and consumer confidence strengthens. Businesses experience increased demand for goods and services, leading to higher sales and profits. Expansionary periods present opportunities for businesses to invest in growth initiatives, expand market share, and innovate (Bernanke 1993).

Conversely, during a contractionary phase, GDP contracts, unemployment rises, and consumer spending slows. Businesses face reduced demand, declining sales, and heightened uncertainty. Contractionary periods require businesses to adopt cost-cutting measures, optimize operations, and preserve cash flow to weather the downturn and emerge stronger (Neil 2005).



## **2.2 Government Policies**

Government policies wield considerable influence over the macroeconomic landscape, shaping business conditions and economic outcomes through a combination of fiscal and monetary measures.

### ***Fiscal Policy***

At the forefront of government intervention lies fiscal policy, which encompasses measures related to government spending and taxation. During economic downturns, policymakers may deploy expansionary fiscal policies to bolster demand and stimulate growth. This entails not only increased public spending on infrastructure projects, education, and social welfare programs but also targeted tax cuts aimed at injecting liquidity into the economy and encouraging consumer spending (Carriere-Swallow et al., 2018). Conversely, in periods of inflationary pressure, contractionary fiscal measures may be implemented to mitigate inflation risks by reducing government spending or increasing taxes, thereby cooling down the economy and stabilizing prices.

### ***Monetary Policy***

Complementary to fiscal policy is monetary policy, which is administered by central banks to regulate money supply and interest rates. Through tools such as open market operations, adjustments to reserve requirements, and setting key interest rates, central banks influence borrowing costs and inflation dynamics. Lowering interest rates encourages borrowing and investment, fostering economic activity and job creation, while raising interest rates serves to contain inflationary pressures and prevent asset bubbles (Eggertsson, 2011).

Government policies have a direct and immediate impact on the operating environment for businesses, influencing investment decisions, borrowing costs, and consumer behaviour. Changes in fiscal policy can affect demand for goods and services, market confidence, and overall economic sentiment. Similarly, shifts in monetary policy can impact borrowing costs, access to credit, and investment opportunities for businesses across sectors. Thus, businesses must remain vigilant to changes in government

policies and adeptly adjust their strategies to navigate risks and capitalize on opportunities within the macroeconomic landscape.

### ***2.3 Institutional Factors Affecting Businesses***

The regulatory environment plays a pivotal role in shaping the landscape within which businesses operate, influencing their strategies, operations, and overall performance. Understanding the multifaceted impact of regulatory factors on businesses is paramount for navigating the complexities of modern markets.

Within this context, the regulatory environment stands as the cornerstone of business dynamics, imposing a framework of rules and standards that companies must adhere to. Extensive research like The regulatory quality holds a very notable impact on the financial development on the system of governance (Lee et al. 2021) underscores the profound influence of regulatory factors on business behaviour and outcomes.

This influence extends to the operational landscape of businesses, particularly in industries such as healthcare and finance, which operate within tightly regulated frameworks. Compliance with stringent regulations often entails substantial costs, as evidenced by the necessity for investments in compliance infrastructure, such as pollution control technologies and emissions monitoring systems (Delmas a Montes-Sancho 2011).

Strategic considerations are also crucial, as scholars have pointed out the significance of proactive compliance approaches and risk mitigation strategies. Businesses that integrate regulatory considerations into their strategic planning processes are better equipped to anticipate regulatory changes and adapt their operations accordingly (Amran et al. 2016).

Moreover, compliance challenges are particularly pronounced among small and medium-sized enterprises (SMEs), which generally experience disproportionate compliance issues relative to larger firms, due to limited resources and regulatory complexity. SMEs may struggle to keep pace with regulatory changes, leading to compliance gaps and regulatory violations (Malesky a Taussig 2019).

However, despite these challenges, regulatory frameworks can also foster innovation and adaptation within organizations. Scholarly research reveals instances where regulatory constraints have spurred technical innovation and the emergence of new commercial opportunities. For example, mandates promoting renewable energy have incentivized investment in clean energy technologies and alternative fuels (Allan et al. 2014).

By comprehensively examining the interplay between regulatory environments and business dynamics, organizations can proactively navigate regulatory complexities and leverage opportunities for innovation and growth."

## **2.4 Norms and Culture**

Societal norms, values, and cultural practices profoundly shape business behaviour and decision-making. Research highlights the importance of cultural intelligence and alignment with societal norms for business success.

Within the realm of norms and culture, the influence on business practices is paramount. Firms that align their activities with societal norms and values are more likely to acquire the confidence and approval of customers and stakeholders. Cultural sensitivity and flexibility are crucial for organizations operating in varied markets. Furthermore, cultural details may significantly influence customer preferences and behaviours, emphasizing the need for organizations to adapt accordingly.

Consumer preferences are also significantly influenced by cultural factors. Research indicates that cultural influences play a substantial role in shaping customer preferences and decisions about purchases. Businesses that understand and cater to these cultural preferences are better positioned to succeed in global markets (Donthu et al. 2021). Multinational corporations often customize their products and marketing strategies to align with local cultural norms and traditions, recognizing the importance of institutional values in shaping consumer behaviours.

In line with societal expectations, corporate social responsibility (CSR) has gained increasing importance in business strategy. Driven by societal expectations for ethical and sustainable business practices, CSR initiatives have become an integral part of institutionalism, reflecting values important to customers and society. Businesses that prioritize CSR not only enhance their reputations but also build stronger relationships with customers, employees, and other stakeholders (Kießling et al. 2016).

Organizational culture serves as a critical link between organizational values and business performance. Strong, values-driven cultures foster greater employee engagement and organizational resilience, ultimately enhancing the efficiency of the company and contributing to a positive employee retention rate. Organizational culture is a fundamental aspect of institutionalism, embodying the values that shape the workplace environment. Businesses that cultivate inclusive, supportive cultures are more successful in attracting and retaining talent, driving innovation, and adapting to change (Pless a Maak 2004).

By comprehensively understanding and embracing the multifaceted aspects of norms and culture, organizations can enhance their adaptability, resilience, and overall success in an increasingly diverse and dynamic business environment.

## ***2.5 Stakeholder Expectations***

Stakeholder expectations play a crucial role in shaping business decisions and behaviours. Scholarly research provides insights into the dynamics of stakeholder relations and the importance of meeting stakeholder expectations for business success.

Within the realm of stakeholder expectations, customer expectations stand out as a key determinant of business performance. Businesses that prioritize customer satisfaction and service quality outperform their competitors. Understanding and meeting customer expectations are essential for building customer loyalty and driving business growth. Businesses that excel in customer experience management enjoy higher profitability and market share. Holding loyal customers is a significant factor in enhancing company growth.

Employee engagement is another critical aspect of stakeholder management. Engaged employees are more productive, innovative, and committed to organizational goals. The businesses that invest in employee engagement initiatives reap benefits such as reduced turnover, higher customer satisfaction, and improved financial performance. Employee engagement is a key driver of organizational success and competitiveness (Bhuvanaiah a Raya 2014).

In the realm of investor relations, transparency and accountability are identified as key factors in building investor trust and confidence. Effective communication and transparency with investors, coupled with high standards of corporate governance and institutional values, are critical for shaping market perceptions and shareholder returns (Hoffmann a Fieseler 2012). Businesses that prioritize investor relations are more likely to attract investment and command higher valuations in the market.

Community engagement is also paramount for businesses seeking to meet stakeholder expectations. Actively engaging with local communities yields various benefits, including enhanced brand reputation, increased customer loyalty, and improved employee morale. Research demonstrates that community engagement initiatives contribute to social cohesion, economic development, and environmental sustainability (Misener a Mason 2010). Businesses that prioritize community engagement will build stronger relationships with stakeholders and contribute to long-term value creation.

By comprehensively understanding and addressing the diverse expectations of stakeholders, organizations can foster sustainable relationships, enhance their reputation, and drive long-term business success.

## ***2.6 Interaction Between Institutional and Macroeconomic Factors***

The relationship between institutional dynamics and macroeconomic factors is complex and intricate, exerting profound influence on the business environment, including strategies, performance, and outcomes.

### ***2.6.1 Influence of Macroeconomic Environment on Institutional Dynamics***

Macroeconomic conditions play a pivotal role in shaping institutional frameworks, cultural norms, and stakeholder expectations, thereby influencing regulatory responses, societal values, and business practices.

#### ***Regulatory Response to Economic Conditions***

Governments often respond to macroeconomic fluctuations by implementing regulatory measures aimed at stabilizing the economy and mitigating risks. During periods of economic downturn, fiscal stimulus packages and monetary easing measures are commonly employed to stimulate demand and restore confidence in financial markets. These governmental interventions have far-reaching implications for businesses, altering market conditions, investment strategies, and regulatory compliance requirements.

#### ***Cultural Shifts in Response to Economic Trends***

Economic crises or periods of uncertainty can indeed precipitate shifts in societal values and norms, impacting consumer behaviour and corporate practices. For instance, the global financial crisis of 2008 prompted a reassessment of corporate ethics and governance practices, leading to heightened scrutiny of executive compensation, risk management, and transparency efforts. This scrutiny reflected a broader societal demand for accountability and integrity in business operations during times of economic distress.

However, it's important to critically evaluate the assertion that economic recessions may drive increased demand for sustainable and socially responsible products. While there

is evidence to suggest that consumer preferences may shift towards more ethically sourced or environmentally friendly products during periods of economic stability and growth, the dynamics during economic downturns may differ. In times of recession, consumers may prioritize affordability and value for money over sustainability concerns, as financial constraints and uncertainty about the future take precedence.

While there may be pockets of consumers who continue to prioritize sustainability even in challenging economic conditions, it's essential to recognize that the overall market dynamics during recessions may not uniformly support increased demand for sustainable products. Nevertheless, shifts in consumer preferences and values are complex and multifaceted, influenced by a myriad of factors beyond economic considerations (Rana et al., 2021).

Therefore, a nuanced understanding of consumer behaviour and market dynamics is essential to accurately assess the impact of economic trends on the demand for sustainable and socially responsible products.

### ***Stakeholder Expectations Amid Economic Uncertainty***

Economic instability often heightens stakeholder expectations regarding corporate conduct and performance. Investors may demand greater transparency and risk management measures to safeguard their investments, while employees and customers may prioritize stability, fairness, and social responsibility in their interactions with businesses. Balancing these shifting expectations alongside economic imperatives and regulatory constraints is crucial for maintaining market confidence and legitimacy.

### ***2.6.2 Case Studies and Empirical Research***

#### ***Case Studies: Impact of Financial Deregulation on Banking Institutions***

The deregulation of financial markets in the late 20th century serves as a poignant case study, illuminating the intricate relationship between macroeconomic policies and institutional dynamics. As policymakers endeavoured to foster market competition and innovation through deregulation initiatives, financial institutions underwent a profound transformation. The dismantling of regulatory barriers unleashed a wave of innovation,

with financial institutions introducing a myriad of complex financial products and embracing novel investment strategies.

This period of deregulation witnessed a significant relaxation of lending standards, as financial institutions sought to capitalize on new opportunities for profit maximization. However, the pursuit of short-term gains often came at the expense of long-term prudence and accountability. The proliferation of subprime mortgages and the securitization of risky assets exemplified the prevailing ethos of risk-taking and speculative behaviour within the financial sector.

The exuberance of deregulation culminated in the 2008 financial crisis; a watershed moment that laid bare the systemic vulnerabilities inherent in the financial system. The collapse of major financial institutions and the implosion of housing markets reverberated globally, triggering a devastating economic downturn of unprecedented scale. The crisis underscored the critical importance of core values such as integrity, transparency, and accountability in corporate governance.

In the aftermath of the crisis, policymakers and regulators embarked on a comprehensive reassessment of financial regulations, aiming to address systemic weaknesses and restore confidence in the financial system. Regulatory reforms, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act, sought to enhance transparency, strengthen oversight, and mitigate systemic risks within the financial sector.

The lessons learned from the 2008 financial crisis underscored the imperative for financial institutions to uphold core values such as integrity, transparency, and accountability in their corporate governance practices. By embracing prudent risk management strategies, fostering a culture of ethical conduct, and prioritizing the interests of stakeholders, banking institutions can navigate the complexities of the financial landscape and contribute to sustainable economic growth.

The impact of financial deregulation on banking institutions serves as a cautionary tale, highlighting the importance of responsible governance and ethical behaviour in safeguarding the stability and integrity of the financial system (Govindarajan Driver 2020).



## ***Empirical Research: Economic Shocks and Corporate Governance Practices***

Empirical studies have delved into the intricate relationship between economic shocks and corporate governance practices, shedding light on how businesses respond to turbulent economic conditions.

For example, during the global financial crisis of 2008, many firms faced unprecedented challenges as financial markets tumbled and economic uncertainty loomed large. In response, companies across industries undertook significant measures to fortify their corporate governance mechanisms. For instance, financial institutions bolstered board oversight and risk management protocols to navigate heightened market volatility and regulatory scrutiny. Additionally, companies implemented robust internal control systems to safeguard against operational risks and enhance transparency in financial reporting.

Similarly, the COVID-19 pandemic unleashed a wave of economic disruption, prompting firms worldwide to re-evaluate their governance structures and adapt to the new normal. In the face of supply chain disruptions and shifting consumer preferences, businesses recalibrated their risk management frameworks and engaged stakeholders in collaborative decision-making processes. Companies also prioritized agility and resilience in their governance practices, embracing digital transformation initiatives to streamline operations and enhance organizational agility in the face of uncertainty.

Furthermore, empirical evidence suggests that economic downturns often serve as catalysts for innovation in corporate governance. Firms leverage adversity as an opportunity to institute progressive governance reforms, such as enhancing board diversity, aligning executive compensation with long-term performance metrics, and fostering a culture of accountability and ethical conduct.

The empirical research underscores the dynamic interplay between economic shocks and corporate governance practices, highlighting the imperative for businesses to adapt and innovate in response to evolving economic conditions (Nawafly & Alarussi, 2019).

### **2.6.3 Cross-National Comparisons: Institutional Variation and Economic Performance**

Exploring Institutional Variation and Economic Performance and Comparative analyses across nations offer valuable insights into the intricate relationship between institutional frameworks and economic performance. By examining the impact of regulatory regimes, labour market institutions, and corporate governance practices on macroeconomic stability, innovation capacity, and competitiveness, these analyses shed light on key determinants of national economic success.

For instance, countries with robust legal systems, strong protections for property rights, and transparent regulatory frameworks have consistently attracted higher levels of foreign investment and experienced accelerated economic growth (La Porta et al., 2000). These nations serve as compelling examples of how institutional quality can serve as a catalyst for economic development and prosperity.

Furthermore, insights gleaned from case studies and empirical research provide nuanced perspectives on the interaction between macroeconomic and institutional factors. In "The Role of Macroeconomic and Institutional Factors in Creating Corporate Financial Flexibility" (Mahmood et al., 2021), empirical evidence underscores the pivotal role of institutional frameworks in shaping corporate financial strategies and resilience. Similarly, studies such as "The Role of Macroeconomic and Institutional Factors in Foreign Direct Investment and Economic Growth: Empirical Evidence in the Context of Emerging Economies" (Bashir et al., 2021) and "Institutional Capacity and Macroeconomic Performance: Empirical Evidence from Nigeria" (Iyoboyi & Pedro, 2014) offer valuable insights into the nexus between institutional capacity and economic outcomes in diverse contexts.

Moreover, seminal works like "The Role of Macroeconomic Factors in Growth" (Fischer, 1993) provide theoretical foundations for understanding how macroeconomic policies and institutional frameworks influence long-term economic trajectories. By synthesizing findings from various sources, a comprehensive understanding of the complex interplay between institutional dynamics and macroeconomic performance emerges, equipping businesses with invaluable insights for navigating the dynamic business environment effectively.

## **2.7 The Business Environment**

The business environment is a complex arena where various external factors come together to shape how businesses operate, make decisions, and perform. Among these factors, the economic environment holds a central role, deeply affected by both macroeconomic indicators and institutional values and the components of business environment are explained below.

### ***Economic Environment***

The economic environment includes the current economic conditions, including GDP growth, inflation rates, interest rates, currency rates, and fiscal policies. Economic changes have a huge influence on firms, influencing customer demand, manufacturing prices, investment decisions, and access to financing. During periods of economic prosperity, businesses may see more consumer spending and investment, resulting in improved sales and profitability. Conversely, economic downturns can result in reduced consumer confidence, lower demand, and tighter credit conditions, posing challenges for businesses.

### ***Regulatory Environment***

The regulatory environment comprises laws, regulations, and government policies that govern business activities and operations (Kock et al. 2012). Regulatory compliance is necessary for organizations to function lawfully and sustainably; nevertheless, regulatory obligations can impose expenses and limits on corporate operations and growth. Compliance problems, such as negotiating complicated regulatory frameworks and managing compliance expenses, may be considerable for firms, especially in heavily regulated industries. However, regulatory environments can also spur innovation and adaptation within businesses, driving technological advancements and the development of new market opportunities (Blind 2016).

## ***Social and Cultural Environment***

The social and cultural environment encompasses societal norms, values, demographics, lifestyles, and cultural practices (Šapić et al. 2022). These factors influence consumer behaviour, preferences, and expectations, shaping businesses' marketing strategies, product development, and corporate social responsibility initiatives. Businesses that align their practices with societal values and cultural norms are more likely to gain acceptance and trust from consumers and stakeholders. Environmental transitions can present institutions with opportunities to stand out in the market and encourage innovation, such as a movement in consumer demand for environmentally friendly and ethical products.

## ***Technological Environment***

The technological environment consists of advancements in technology, innovation, and digitalization. Technological developments, such as the internet, mobile devices, artificial intelligence, and automation, have transformed business operations, communication, and customer engagement. Businesses must continually invest in technology and adapt to technological changes to remain competitive and meet evolving customer demands. Technological disruptions, such as the emergence of new business models and digital platforms, can reshape industries and create both opportunities and challenges for businesses (Sabatier et al. 2012).

## ***Competitive Environment***

The competitive environment refers to the level of rivalry and competition within an industry. It includes factors such as the number and strength of competitors, market concentration, barriers to entry, and competitive strategies. Businesses must analyse the competitive landscape, identify key competitors' strengths and weaknesses, and differentiate themselves effectively to gain a competitive advantage. Understanding competitive dynamics is crucial for businesses to develop sustainable business models and succeed in the marketplace.

## ***Interplay with Institutional and Macroeconomic Factors***

The business environment is shaped by a complex interplay of institutional and macroeconomic factors. Changes in institutional frameworks, government policies, economic conditions, and societal trends have profound implications for businesses, influencing their strategies, operations, and performance. By examining the components of the business environment and their interactions with institutional and macroeconomic factors, we can gain insights into how businesses navigate challenges and capitalize on opportunities in dynamic environments, supporting our thesis statement on their impact on business outcomes.

## ***2.8 Institutional Values and the Political Environment***

Institutional values play a crucial role in shaping the political environment of a country, influencing the norms, behaviours, and decision-making processes of political institutions and actors. By upholding principles of transparency, accountability, rule of law, and civic engagement, institutional values contribute to the development of democratic governance systems and foster political stability and effectiveness.

### ***2.8.1 Democratic Governance***

#### ***Transparency and Accountability***

Institutional values emphasizing transparency and accountability are essential for promoting democratic governance. Transparent decision-making processes, open access to information, and mechanisms for public oversight help ensure that political institutions and leaders are accountable to the citizens they serve. Strong institutional mechanisms are essential portion for calibrating the accountability, such as independent oversight bodies, judicial review, and free media, contribute to preventing corruption, abuse of power, and violations of human rights.

## ***Rule of Law***

Upholding the rule of law is fundamental to democratic governance, ensuring that laws are applied impartially and consistently to all citizens and institutions (Mahmod 2013). Respect for legal principles, constitutional safeguards, and due process rights protects individual liberties, safeguards property rights, and promotes social justice. Institutions that embody the rule of law contribute to political stability and public trust in the government, fostering an environment conducive to economic development and social progress.

### ***2.8.2 Political Stability***

#### ***Inclusive Governance Structures***

Institutional value promotes inclusivity and participation in decision-making processes contribute to political stability. Inclusive governance structures that accommodate diverse interests, perspectives, and identities help mitigate social tensions, prevent conflicts, and promote social cohesion. Institutions holding institutional values facilitates the dialogue, consensus-building, and conflict resolution mechanisms enable peaceful coexistence and democratic transitions, reducing the risk of political instability and violence.

#### ***Respect for Democratic Principles***

Upholding democratic principles such as free and fair elections, respect for human rights, and protection of civil liberties is essential for maintaining political stability (Diamond a Morlino 2005). Institutions that safeguard electoral integrity, ensure political pluralism and guarantee freedom of expression and association reinforce democratic norms and practices. Respect for democratic principles enhances the legitimacy of political institutions and leaders, strengthening social cohesion and resilience against authoritarian threats and extremist ideologies (Norris, 2011).

### ***2.8.3 Effective Policymaking***

#### ***Evidence-Based Decision Making***

Institutional values that prioritize evidence-based policymaking contribute to effective governance and public service delivery. Institutions that value rigorous research, data analysis, and expert advice enhance the quality and effectiveness of policy decisions. Evidence-based policymaking promotes transparency, accountability, and public trust in government institutions, facilitating informed citizen participation and engagement in the policymaking process can be achieved effectively by strong Institutional values.

#### ***Stakeholder Engagement***

Institutional values emphasizing stakeholder engagement and participatory governance processes enhance the legitimacy and effectiveness of policymaking. Inclusive policymaking processes that involve diverse stakeholders, including civil society organizations, academia, business sector, and marginalized communities, ensure that policies reflect the needs, priorities, and aspirations of the population—engaging stakeholders in policy formulation, implementation, and evaluation fosters ownership, consensus-building, and collective responsibility, leading to more sustainable and equitable policy outcomes.

## ***2.9 Institutional Values and the Research and Development (R&D) Environment***

Institutional values that influence the R&D ecosystem of a country, shaping the incentives, regulations, and support mechanisms that drive innovation and technological advancement. By promoting principles of openness, collaboration, meritocracy, and investment in education and research infrastructure, high institutional values contribute to fostering a vibrant R&D environment conducive to creativity, discovery, and knowledge creation.

### **2.9.1 Openness and Collaboration**

#### ***International Cooperation***

Institutional values that promote openness and international collaboration enhance access to knowledge, expertise, and resources from global networks. Participating in international research partnerships, collaborative projects, and knowledge exchange initiatives enables countries to leverage complementary strengths, address common challenges, and accelerate innovation. Open science practices, such as data sharing, collaborative publications, and joint research endeavours, facilitate interdisciplinary collaboration and enhance the impact and visibility of research outputs (Beck et al. 2022).

#### ***Interdisciplinary Research***

Institutional values that encourage interdisciplinary research foster cross-disciplinary collaborations and innovation. Interdisciplinary approaches bring together researchers from diverse fields, perspectives, and methodologies to tackle complex societal problems and generate novel solutions. Institutions that support interdisciplinary research centres, funding programs, and collaborative platforms create opportunities for knowledge integration, creativity, and breakthrough discoveries (Crow a Dabars 2014).

### **2.9.2 Meritocracy and Excellence**

#### ***Research Excellence Frameworks***

Institutional values that prioritize meritocracy and excellence in research evaluation and funding allocation promote quality and innovation. Research excellence frameworks that assess research outputs based on rigorous peer review, academic impact, and societal relevance incentivize researchers and institutions to pursue high-quality research that pushes the boundaries of knowledge. Funding arrangements that are transparent and merit-based guarantee that resources are directed toward initiatives that have the highest potential to advance science and have a positive impact on society.



## ***Investment in Human Capital***

Institutional values that prioritize investment in human capital, education, and talent development are essential for nurturing a skilled and diverse workforce. Investing in education, training, and career development programs for researchers, scientists, engineers, and innovators cultivates a talent pool capable of driving technological innovation and entrepreneurship. Research has shown that institutions that offer supportive research settings, mentorship opportunities, and competitive pay and perks attract and keep top personnel, establishing a culture of excellence and innovation.

### ***2.9.3 Supportive Policies and Infrastructure***

#### ***Research Funding and Incentives***

Institutional values that prioritize research funding, incentives, and support mechanisms stimulate R&D investment and innovation (Ayisi et al. 2016). Governments, research agencies, and industry partners play a critical role in providing financial resources, grants, tax incentives, and research infrastructure to support R&D activities. Policies that support public-private partnerships, technology transfer, and intellectual property rights protection enhance collaboration among academics, business, and the government, building innovation ecosystems that drive economic development and societal advancement.

#### ***Research Infrastructure***

Institutional fundamentals that point out investment in research infrastructure, facilities, and equipment help research institutes and laboratories improve their capacity and capabilities. Access to state-of-the-art laboratories, scientific equipment, computing resources, and research libraries enables researchers to conduct cutting-edge experiments, analyse complex data, and generate new knowledge. Institutions that invest in research infrastructure create an enabling environment for innovation, entrepreneurship, and technology commercialization, attracting investment and fostering regional economic development (Guzman et al. 2024).

By promoting openness, collaboration, meritocracy, and investment in education and research infrastructure, high institutional values contribute to fostering a vibrant R&D and technology environment within a country. Upholding these principles strengthens the capacity of research institutions, nurtures talent and creativity, and facilitates knowledge creation and technology transfer. As a result, countries that prioritize institutional values are better positioned to drive innovation, stimulate economic growth, and address pressing societal challenges through research and technological advancement.

## ***2.10 High Institutional Values and Fair Competition***

Institutional values play a crucial role in shaping the regulatory frameworks, enforcement mechanisms, and ethical standards that govern competition within a country. By promoting transparency, accountability, and adherence to competition laws, high institutional values contribute to fostering fair play among competitors, preventing market distortions, and ensuring a level playing field for businesses of all sizes.

### ***2.10.1 Transparent Regulatory Frameworks***

#### ***Competition Policies and Laws***

Institutional principles that promote competition regulations and legislation offer unambiguous norms and standards for fair competition. Comprehensive competition laws that ban anti-competitive actions such as collusion, price fixing, market manipulation, and abuse of dominant positions help to avoid unfair advantages and safeguard consumer welfare. Transparent regulatory frameworks ensure that firms understand their rights and duties, which aids compliance and enforcement efforts.

#### ***Regulatory Oversight***

Institutional guidelines that support market integrity and deter anti-competitive behaviour also support regulatory scrutiny and enforcement measures. Independent regulatory bodies and competition authorities are essential for keeping an eye on market dynamics, looking into complaints, and punishing offenders. Enforcing competition rules

effectively promotes a culture of compliance and moral business practices by sending a clear message that anti-competitive behaviour will not be accepted.

### **2.10.2 Accountability and Ethical Conduct**

#### ***Corporate Governance Standards***

Transparency, accountability, and ethical corporate activity are encouraged by institutional norms that place a strong emphasis on corporate governance standards. Robust corporate governance principles, such as financial transparency, shareholder rights, and board independence, lower agency costs and lessen the likelihood of conflicts of interest. Transparent reporting and disclosure requirements enable stakeholders to assess companies' performance, risk profiles, and ethical behaviour, fostering investor confidence and market stability (Oladapo et al. 2019).

#### ***Business Ethics and Integrity***

Institutional principles that place a high priority on integrity and business ethics encourage rivals to behave morally and fairly. Honesty, integrity, and adherence to rules and regulations are examples of ethical business practices that build confidence and trust in the marketplace. Companies that uphold ethical standards build reputations for reliability, integrity, and corporate citizenship, attracting customers, investors, and talent (Yumarma 2023).

### **2.10.3 Levelling the Playing Field**

#### ***Access to Information and Resources***

Fair competition is encouraged by institutional ideals that guarantee all market participants have access to resources and knowledge. Equality of possibilities for market entrance, open access to information, and transparent market systems promote the competitiveness of SMEs and new entrants against more established firms. Policies that support entrepreneurship, innovation, and access to finance facilitate the emergence of dynamic and competitive markets, driving economic growth and job creation (Audretsch a Beckmann 2007).

## ***Consumer Protection and Empowerment***

Institutional principles that place a high priority on consumer empowerment and protection defend their interests and encourage fair competition. Consumers are informed, empowered, and shielded from unfair practices and misleading marketing strategies by effective consumer protection laws, product safety standards, and dispute resolution procedures. Customers with more power make well-informed decisions, which puts pressure on companies to compete based on quality, price, and service. This encourages innovation and increases market efficiency.

High institutional values help to create fair competition among rivals inside a nation by supporting open and transparent regulatory frameworks, accountability, moral behaviour, and levelling the playing field. Respecting these values promotes economic efficiency, innovation, and prosperity by ensuring market integrity, investor confidence, and consumer trust. Therefore, nations that place a high priority on institutional values are better positioned to develop thriving, competitive markets that benefit companies, customers, and society.

## ***2.11 High Institutional Values and Economic Growth***

High institutional values contribute to economic growth and prosperity by fostering an environment conducive to investment, innovation, entrepreneurship, and productivity enhancement. By promoting transparency, accountability, and adherence to the rule of law, countries can create a stable and predictable business environment that attracts investment, encourages innovation, and facilitates economic diversification.

### ***2.11.1 Investor Confidence and Capital Flows***

#### ***Rule of Law and Property Rights***

Institutional values that uphold the rule of law and protect property rights provide a legal framework that fosters investor confidence and capital flows (Alam et al. 2019). Ensuring contract observance, property rights protection, and fair and effective dispute

resolution are made possible by robust legal institutions, an independent court, and enforcement measures. Capital inflows and economic growth are positively correlated with dependable legal systems that offer investors security and assurance for their investments.

### ***Transparency and Accountability***

Institutional values emphasizing transparency and accountability in governance practices enhance investor confidence and reduce the risk of corruption and rent-seeking behaviour. Transparent government policies, regulatory frameworks, and decision-making processes minimize regulatory uncertainty and political risks, creating a favourable investment climate. Accountability mechanisms, such as independent audit bodies and anti-corruption agencies, ensure that public funds are used efficiently and effectively, fostering trust in government institutions, and attracting private investment (Fjeldstad a Isaksen 2008).

## ***2.11.2 Entrepreneurship and Innovation***

### ***Regulatory Environment***

Institutional values that promote a conducive regulatory environment for entrepreneurship and innovation encourage investment and economic diversification (Urbano et al. 2019). Standardized licensing requirements, flexible labour market rules, and streamlined business registration processes lower entry barriers and aid in the founding and expansion of enterprises. Entrepreneurs are empowered to invent, test, and launch new goods and services onto the market through regulatory reforms that support competition, safeguard intellectual property rights, and ease access to capital.

### ***Investment in Education and Research***

Institutional values that place a high priority on research, education, and the growth of human capital improve a nation's ability to innovate and boost its efficiency. Good educational institutions, career-training programs, and chances for continuous education provide people the information and abilities they need to keep up with technology changes and support economic growth. Science parks, innovation clusters,

and R&D infrastructure investments encourage cooperation between government, business, and academia and result in breakthrough discoveries, technology transfer, and commercialization.

### ***2.11.3 Sound Fiscal and Monetary Policies***

#### ***Macroeconomic Stability***

Institutional values that encourage sound fiscal and monetary policies support macroeconomic stability and trust among investors. To maintain fiscal stability and lower the danger of a sovereign default, fiscal restraint, careful budgetary management, and debt sustainability measures are necessary. To sustain price stability and exchange rate credibility, credible monetary policy frameworks, inflation-targeting regimes, and independent central banks are necessary. These factors also serve to anchor inflation expectations and promote long-term investment.

#### ***Infrastructure Investment***

Public-private partnerships (PPPs) and infrastructure investment are given priority by institutional ideals, which raise a nation's productivity and competitiveness. Trade and investment flows are facilitated by well-developed infrastructure networks, which include those for energy, telecommunications, digital infrastructure, transportation, and telecoms. These networks also lower transaction costs and increase connectivity. When combined with effective project management and involvement from the private sector, public investment in infrastructure projects boosts the economy, generates employment, and promotes long-term economic growth.

By promoting high institutional values such as good governance, transparency, accountability, and protection of property rights, countries can create an enabling environment for economic growth, investment, and prosperity. Upholding these principles fosters investor confidence, encourages entrepreneurship and innovation, and enhances macroeconomic stability and productivity. There are a lot of studies which have observed the relationship of governance with economic growth and proposed that economic growth affects significantly due to governance indicators. Governance plays a vital role in supporting a country competitiveness and get better quality of people's

life (Zhuo et al. 2021). (Kaufmann et al. 2002) emphasized the pivotal role of good governance in fostering economic growth. Similarly, (Rigobon a Rodrik 2005), along with (Dollar a Kraay 2002), highlighted the significant impact of the rule of law on economic growth. Furthermore, (Easterly a Levine 2003) identified a positive correlation between six governance factors and economic growth. (De Groot et al. 2004) uncovered a positive relationship between regulatory quality and economic growth, particularly in democratic nations. Moreover, Mari'a-Teresa et al. (2012) underscored that controlling corruption, enhancing government effectiveness, promoting voice and accountability, and upholding the rule of law are crucial factors contributing to economic growth.

### **3. Analytical Case Study**

The aim for this work is to prove and demonstrate that the institutional values does influence or create an impact on the prosperity of the nation. Specially the countries creating and holding higher importance on institutional values is associated with higher economic prosperity. The countries of European Union will be assessed with the indicators such as the rule of law, control of corruption, rule of law, regulatory quality, and government effectiveness to record their institutional values and GDP, GDP per capita, Human Development Index (HDI) and Income Inequality as Gini Coefficient of the countries of European Union is collect for the years 2018, 2019, 2020, 2021 and 2022. These indicators are decided and selected from the knowledge we gathered from the theoretical part. The indicators of institutional values and economic relationship will be analysed using corelation and regression analysis to prove our assumptions that the countries with strong and high institutional values tend to hold better economic prosperity.

#### **3.1 Data Source**

The assessment of institutional values relies on various indicators, including Transparency International's Corruption Perception Index, the World Bank's Worldwide Governance Indicators, and the Heritage Foundation's Index of Economic Freedom. These indicators offer insights into the concerns of institutions and aid in identifying countries that uphold strong institutional values. Furthermore, to gauge economic prosperity, we examine data such as GDP and GDP per capita from the World Bank and the International Monetary Fund, along with the unemployment rate from Eurostat, poverty rate from Eurostat and National Statistical Agencies, Gini Coefficient from Eurostat and National Statistical Agencies, and the Human Development Index from the United Nations Development Programme and Eurostat.

The values are logarithmically arranged for the convenient of analysis and all the values are quoted in the currency of Euros. The values such as HDI, and Gini Coefficient and governance indicators are expressed in their own units like ranks, percentage, ratios, and limits. The mentioned data can be considered sufficient to represent the fact of our work.



### **3.2 Institutional and Social Indicators**

Gross Domestic Product (GDP) serves as a fundamental economic indicator, providing a comprehensive measure of a country's economic output within a specific time frame, usually annually or quarterly. It encompasses the total market value of all goods and services produced within a country's borders, including consumption, investment, government spending, and net exports. GDP offers insights into the overall size and growth trajectory of an economy, making it a crucial tool for policymakers, investors, and analysts to assess economic performance, identify trends, and formulate strategies.

GDP per capita, a derivative of GDP, divides the total GDP of a country by its population, yielding the average income or output per person. This metric offers a more nuanced perspective on economic well-being, as it considers the distribution of economic output among the population. By examining GDP per capita, analysts can gauge the standard of living, prosperity, and relative wealth of individuals within a country. Disparities in GDP per capita across regions or demographic groups can indicate inequalities in income distribution and access to economic opportunities, highlighting areas for targeted intervention or policy reform. Overall, GDP per capita serves as a key indicator of economic development and societal welfare, complementing broader measures of economic performance such as GDP.

The Human Development Index (HDI), an annual publication by the United Nations Development Programme (UNDP) as part of its Human Development Report (HDR), serves as a holistic gauge of human progress globally. This multidimensional index is meticulously calculated, integrating three fundamental pillars: health, education, and standard of living. Health is assessed through life expectancy at birth, reflecting access to healthcare and overall well-being. Education encompasses mean years of schooling for adults aged 25 and expected years of schooling for children, indicating educational attainment and opportunities. Standard of living is captured by Gross National Income per capita, adjusted for purchasing power parity, shedding light on economic prosperity and material well-being. The HDI, presented as a normalized index ranging from 0 to 1, enables cross-country comparisons and unveils varying levels of human development. These levels are stratified into categories—low, medium, high, and very high—based on HDI values, delineating disparities in life expectancy, education, and income distribution.

Such insights not only offer a snapshot of overall quality of life but also inform policy decisions aimed at fostering sustainable development and improving human well-being worldwide.

The Gini coefficient, a pivotal measure of income or wealth distribution within populations, is calculated and reported by diverse governmental and international bodies, including national statistical offices, the World Bank, and the United Nations. Employing Lorenz curves, which delineate the cumulative percentage of income or wealth against the cumulative percentage of the population, the Gini coefficient quantifies the disparity between actual and perfectly equal distribution. Ranging from 0 to 1, with 0 denoting perfect equality and 1 symbolizing perfect inequality, intermediate values represent varying degrees of disparity. Higher coefficients signal greater inequality, where a larger proportion of income or wealth is concentrated among a smaller segment of the population. This metric is crucial for policymakers, offering insights into the distributional impact of economic policies and guiding interventions to foster more equitable outcomes. Additionally, tracking changes in the Gini coefficient over time illuminates trends in income or wealth inequality within societies, facilitating informed decision-making and socio-economic analysis.

The indicators which reflect as the result of the institutional values and symbolises the country's governance and political stability are Worldwide governance indicator by World Bank which features six aggregate governance indicator such as Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of law and Control of Corruption. All these data are expressed in percentiles. Each factor explains the countries efficiency on it. Higher the percentile the best the governance is.

### ***Governance Effectiveness by WGI***

Governance Efficiency, as measured by the Worldwide Governance Indicators (WGI), refers to the effectiveness and efficiency of governance structures and processes within a country. It evaluates how well governments can formulate and implement policies, deliver public services, maintain the rule of law, and manage resources efficiently. In essence, Governance Efficiency assesses the capacity of

governments to achieve desired outcomes and meet the needs of their citizens in a timely and effective manner.

The WGI gathers data from various sources, including surveys, expert assessments, and administrative records, to calculate Governance Efficiency. It utilizes a set of aggregate indicators that capture key aspects of governance efficiency, such as government effectiveness, regulatory quality, rule of law, and control of corruption. These indicators are weighted and aggregated to produce a composite score that reflects the overall level of governance efficiency within a country.

The values of Governance Efficiency by WGI represent the relative strength or weakness of governance systems across different countries. A high value indicates that a country's governance structures and processes are effective and efficient, fostering economic growth, social development, and political stability. It signifies a well-functioning government that can allocate resources wisely, deliver public services efficiently, and uphold the rule of law effectively. Conversely, a low value suggests that a country's governance systems face challenges in achieving desired outcomes and meeting the needs of its citizens. It may indicate issues such as bureaucratic inefficiencies, regulatory burdens, legal uncertainties, and corruption within the public sector. By analysing the values of Governance Efficiency, policymakers, researchers, and stakeholders can gain insights into the strengths and weaknesses of governance systems worldwide and identify areas for improvement.

### ***Rule of Law by WGI***

The Rule of Law, as evaluated by the WGI, examines the adherence of a country's legal institutions to principles of legality, fairness, and justice. It encompasses the effectiveness of legal frameworks, the independence and impartiality of the judiciary, and the enforcement of laws and regulations. A high score in Rule of Law indicates a strong legal system where laws are consistently applied, individuals are treated equally under the law, and fundamental rights are protected. Conversely, a low score suggests challenges such as corruption, political interference in the judiciary, and limitations in access to justice. Evaluating the Rule of Law provides insights into the strength and integrity of legal systems worldwide, guiding efforts to promote accountability, transparency, and respect for human rights.

### ***Control of Corruption by WGI***

Control of Corruption, assessed by the WGI, measures the extent of public power misuse for private gain, including petty and grand corruption. It evaluates the effectiveness of anti-corruption measures, institutional transparency, and governmental accountability. Data from surveys, expert assessments, and administrative records are aggregated to calculate Control of Corruption by WGI, considering indicators like bribery prevalence and anti-corruption law enforcement effectiveness. High values indicate strong anti-corruption measures and transparent, accountable governance, while low values suggest widespread corruption and lack of transparency. Analysing these values guides efforts to strengthen anti-corruption measures and promote integrity in governance.

### ***Voice and Accountability by WGI***

Voice and Accountability, assessed by the WGI, gauges the degree to which citizens can engage in political processes, express their opinions, and hold governments accountable. It encompasses measures of freedom of expression, media independence, civil liberties, and the inclusiveness of political participation. The WGI aggregates data from surveys, expert assessments, and other sources to calculate Voice and Accountability, considering indicators such as freedom of speech, press freedom, and electoral processes. High values signify a robust environment for citizen engagement and governmental responsiveness to public opinion, while low values indicate restrictions on political freedoms and limited civil liberties. Analysing these values aids in identifying areas for promoting citizen participation and enhancing democratic governance.

### ***Regulatory Quality by WGI***

Regulatory Quality, assessed by the WGI, evaluates the effectiveness of regulatory frameworks and institutions in fostering market competition, investor confidence, and economic growth. It encompasses measures of transparency, efficiency, and impartiality of regulations, as well as the burden of bureaucracy on businesses. Data from surveys, expert assessments, and administrative records are

aggregated to calculate Regulatory Quality by WGI, considering indicators such as ease of starting a business, regulatory transparency, and regulatory capture. High values indicate robust regulatory frameworks and efficient bureaucratic processes, conducive to business confidence and economic development, while low values suggest burdensome regulations and inefficiencies hindering market competition and growth. Analysing these values guides efforts to identify areas for reform and improvement in promoting regulatory efficiency and competitiveness.

### ***Political Stability and Absence of Violence / Terrorism***

Political Stability and Absence of Violence/Terrorism, evaluated by the WGI, measures the likelihood of political upheavals, conflicts, and acts of terrorism within a country. It assesses the stability of political institutions, social cohesion, and the prevalence of violent incidents. Data from surveys, expert assessments, and other sources are aggregated to calculate Political Stability and Absence of Violence/Terrorism by WGI, considering indicators such as the frequency of violent protests, political instability, and the impact of terrorism. High values signify strong political institutions, social cohesion, and low levels of violence and terrorism, fostering stability and confidence in governance, while low values suggest instability, social unrest, and heightened risks of violence and terrorism, necessitating intervention and policy reform to promote stability and peace.

### ***3.2.1 Data Description***

#### ***GDP***

We have focused our analysis on countries within the European Union, which operates as a unified market comprising 27 member states. Notably, the combined value of goods and services produced within EU states surpasses that of the United States of America in the years 2020, 2021, 2022, and 2023.

Table 1 EU states and their GDP for the year (2018-2022) in Million Euros

<b>Countries</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Austria</b>	385,274.1	397,147.2	380,888.5	405,241.4	447,217.6
<b>Belgium</b>	460,050.8	478,676.2	460,747.7	507,929.6	554,044.3
<b>Bulgaria</b>	56,199.8	61,530.8	61,607.7	71,060.1	85,800.7
<b>Croatia</b>	52,876.9	55,772.3	50,543.1	58,455.1	67,989.5
<b>Cyprus</b>	21,675.1	23,177.9	22,086.6	24,927.6	27,777.0
<b>Czechia</b>	210,970.5	225,613.5	215,805.4	238,249.5	276,265.7
<b>Denmark</b>	302,328.7	309,526.4	311,356.3	342,961.7	380,617.8
<b>Estonia</b>	25,932.2	27,951.0	27,430.0	31,169.0	36,011.1
<b>Finland</b>	233,462.0	239,858.0	238,038.0	250,664.0	267,687.0
<b>France</b>	2,363,306.0	2,437,635.0	2,317,832.0	2,502,118.0	2,639,092.0
<b>Germany</b>	3,365,450.0	3,474,110.0	3,403,730.0	3,617,450.0	3,876,810.0
<b>Greece</b>	179,557.7	183,347.4	165,015.7	181,500.4	206,620.4
<b>Hungary</b>	136,055.4	146,554.5	137,920.2	153,980.2	168,549.5
<b>Ireland</b>	327,441.4	356,357.4	375,249.6	434,069.7	506,282.4
<b>Italy</b>	1,771,391.2	1,796,648.5	1,661,239.8	1,821,934.6	1,962,845.8
<b>Latvia</b>	29,153.6	30,572.9	30,109.5	33,348.9	38,386.2
<b>Lithuania</b>	45,515.2	48,959.2	49,873.2	56,478.1	67,436.5
<b>Luxembourg</b>	60,121.2	62,431.5	64,524.3	72,360.9	77,529.0
<b>Malta</b>	13,044.0	14,296.5	13,351.5	15,323.5	17,432.3
<b>Netherlands</b>	773,987.0	813,055.0	796,530.0	870,587.0	958,549.0
<b>Poland</b>	499,004.1	532,504.7	526,147.2	576,382.6	654,594.4
<b>Portugal</b>	205,184.1	214,374.6	200,518.9	216,053.2	242,340.8
<b>Romania</b>	206,071.9	224,178.6	220,486.6	241,611.3	284,173.6
<b>Slovakia</b>	89,874.7	94,429.7	93,444.1	100,255.7	109,645.2
<b>Slovenia</b>	45,876.3	48,582.3	47,044.9	52,278.8	57,037.7
<b>Spain</b>	1,203,859.0	1,245,513.0	1,119,010.0	1,222,290.0	1,346,377.0
<b>Sweden</b>	470,673.1	476,869.5	480,556.4	540,734.0	561,785.1

Source: Own processing according to Eurostat

## **Gross Domestic Product Per Capita (GDP Per Capita)**

The GDP per capita of states of European union is sourced by the data release by Eurostat for the years from 2018-2022. This will serve as an indicator for our analytical part for proving the prosperity of the nation.

*Table 2 EU states and their GDP Per Capita for the years 2018-2022 in Million Euros*

<b>Country Name</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Austria</b>	37,690	38,070	35,390	36,740	38,080
<b>Belgium</b>	35,510	36,110	34,060	36,250	37,040
<b>Bulgaria</b>	6,330	6,630	6,400	6,950	7,680
<b>Croatia</b>	12,250	12,740	11,700	13,610	14,660
<b>Cyprus</b>	24,500	25,510	24,350	26,520	27,480
<b>Czechia</b>	17,990	18,460	17,400	18,020	18,460
<b>Denmark</b>	48,450	48,970	47,680	50,740	51,660
<b>Estonia</b>	14,920	15,450	15,260	16,350	16,250
<b>Finland</b>	36,740	37,150	36,220	37,170	37,560
<b>France</b>	32,800	33,250	30,630	32,490	33,180
<b>Germany</b>	35,650	35,950	34,550	35,630	36,010
<b>Greece</b>	17,430	17,780	16,150	17,600	18,690
<b>Hungary</b>	12,690	13,310	12,740	13,690	14,360
<b>Ireland</b>	57,610	59,840	63,120	72,110	77,430
<b>Italy</b>	27,030	27,230	24,910	27,120	28,250
<b>Latvia</b>	12,140	12,300	11,940	12,870	13,220
<b>Lithuania</b>	13,400	14,060	14,060	14,870	15,100
<b>Luxembourg</b>	83,390	84,070	82,030	86,540	85,850
<b>Malta</b>	22,550	23,190	20,850	23,330	24,560
<b>Netherlands</b>	41,450	41,980	40,130	42,390	43,800
<b>Poland</b>	12,500	13,070	12,810	13,770	14,620
<b>Portugal</b>	18,190	18,670	17,100	18,090	19,310
<b>Romania</b>	8,910	9,300	9,000	9,600	10,030
<b>Slovakia</b>	15,580	15,960	15,400	16,200	16,340
<b>Slovenia</b>	20,240	20,780	19,770	21,350	21,870
<b>Spain</b>	24,890	25,180	22,260	23,670	24,810

<b>Sweden</b>	43,760	44,180	42,910	45,280	46,170
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Source: Own Processing according to Eurostat.

### **Human Development Index (HDI)**

Human Development Index of European Union states is ranked from highest to lowest as the values range from 0-1, the data is driven from authentic sources Human Development Report (HDR) for the year 2018-2022. This will also serve as an indicator for the prosperity of the nation.

Table 3 EU states and their Human Development Index for the years 2018-2022

<b>Countries</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Austria</b>	0.917	0.92	0.916	0.92	0.926
<b>Belgium</b>	0.933	0.936	0.93	0.938	0.942
<b>Bulgaria</b>	0.811	0.813	0.802	0.796	0.799
<b>Croatia</b>	0.86	0.866	0.86	0.867	0.878
<b>Cyprus</b>	0.896	0.901	0.9	0.901	0.907
<b>Czechia</b>	0.893	0.896	0.891	0.891	0.895
<b>Denmark</b>	0.942	0.946	0.946	0.947	0.952
<b>Estonia</b>	0.89	0.893	0.891	0.89	0.899
<b>Finland</b>	0.936	0.939	0.939	0.941	0.942
<b>France</b>	0.903	0.905	0.9	0.906	0.91
<b>Germany</b>	0.946	0.951	0.948	0.948	0.95
<b>Greece</b>	0.886	0.89	0.887	0.887	0.893
<b>Hungary</b>	0.85	0.854	0.849	0.846	0.851
<b>Ireland</b>	0.938	0.942	0.945	0.946	0.95
<b>Italy</b>	0.894	0.899	0.892	0.899	0.906
<b>Latvia</b>	0.868	0.873	0.873	0.865	0.879
<b>Lithuania</b>	0.882	0.886	0.88	0.875	0.879
<b>Luxembourg</b>	0.921	0.925	0.921	0.927	0.927
<b>Malta</b>	0.903	0.905	0.901	0.912	0.915
<b>Netherlands</b>	0.939	0.941	0.938	0.941	0.946
<b>Poland</b>	0.876	0.88	0.874	0.876	0.881
<b>Portugal</b>	0.858	0.864	0.861	0.865	0.874



<b>Romania</b>	0.829	0.834	0.828	0.825	0.827
<b>Slovakia</b>	0.86	0.863	0.86	0.852	0.855
<b>Slovenia</b>	0.916	0.918	0.91	0.916	0.926
<b>Spain</b>	0.899	0.904	0.894	0.904	0.911
<b>Sweden</b>	0.943	0.947	0.944	0.949	0.952

Source: Own processing according to Human Development Report (HDR).

### **Income Inequality (Gini Coefficient)**

Income Inequality is expressed in terms of Gini coefficient. The data is driven for the years 2018-2022. The values are between 0-100, where 0 is the proves that there is no inequality in income and 100 defines the complete inequality in the market with the income.

Table 4 EU States and their Income Inequality- Gini Coefficient for the years 2018-2022

<b>Countries</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Austria</b>	26.8	27.5	27.0	26.7	27.8
<b>Belgium</b>	25.7	25.1	25.4	24.1	24.9
<b>Bulgaria</b>	39.6	40.8	40.0	39.7	38.4
<b>Croatia</b>	29.7	29.2	28.3	29.2	28.5
<b>Cyprus</b>	29.1	31.1	29.3	29.4	29.4
<b>Czechia</b>	24.0	24.0	24.2	24.8	24.8
<b>Denmark</b>	27.8	27.5	27.3	27.0	27.7
<b>Estonia</b>	30.6	30.5	30.5	30.6	31.9
<b>Finland</b>	25.9	26.2	26.5	25.7	26.6
<b>France</b>	28.5	29.2	29.2	29.3	29.8
<b>Germany</b>	31.1	29.7	30.5	31.2	29.0
<b>Greece</b>	32.3	31.0	31.4	32.4	31.4
<b>Hungary</b>	28.7	28.0	28.0	27.6	27.4
<b>Ireland</b>	28.9	28.3	28.3	26.9	27.9
<b>Italy</b>	33.4	32.8	32.5	32.9	32.7
<b>Latvia</b>	35.6	35.2	34.5	35.7	34.3
<b>Lithuania</b>	36.9	35.4	35.1	35.4	36.2

<b>Luxembourg</b>	31.3	32.3	31.2	29.6	29.1
<b>Malta</b>	28.7	28.0	30.3	31.2	31.1
<b>Netherlands</b>	27.4	26.8	28.2	26.4	26.3
<b>Poland</b>	27.8	28.5	27.2	26.8	26.3
<b>Portugal</b>	32.1	31.9	31.2	33.0	32.0
<b>Romania</b>	35.1	34.8	33.8	34.3	32.0
<b>Slovakia</b>	20.9	22.8	20.9	21.8	21.2
<b>Slovenia</b>	23.4	23.9	23.5	23.0	23.1
<b>Spain</b>	33.2	33.0	32.1	33.0	32.0
<b>Sweden</b>	27.0	27.6	26.9	26.8	27.6

Source: Own processing according to Eurostat

### **Governance Effectiveness by WGI**

Governance Effectiveness rating for the countries of European Union is published by Worldwide Governance Index for the years 2018-2022. The data will be taken as one of the indicators to exhibit the country's values as institutional value. The values are expressed in percentile

Table 5 EU States and Their Governance Effectiveness for the years 2018-2022

<b>Country/Territory</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Austria</b>	90.95	91.43	93.81	93.81	91.51
<b>Belgium</b>	86.19	82.86	84.29	83.33	84.91
<b>Bulgaria</b>	57.14	60.00	43.81	45.71	42.92
<b>Costa Rica</b>	66.67	66.19	60.00	59.52	55.66
<b>Cyprus</b>	76.67	78.57	76.67	73.81	75.47
<b>Czech Republic</b>	78.57	78.10	78.57	81.43	81.13
<b>Germany</b>	91.43	91.90	88.10	87.14	88.21
<b>Denmark</b>	96.67	98.57	97.62	98.57	98.58
<b>Spain</b>	79.05	79.52	77.62	78.10	77.83
<b>Estonia</b>	83.33	84.76	87.62	88.57	89.62
<b>Finland</b>	99.52	99.52	98.57	98.10	96.70
<b>France</b>	89.52	88.10	85.71	85.24	83.02

<b>Greece</b>	62.86	64.76	67.14	67.14	66.51
<b>Croatia</b>	70.95	69.05	68.10	69.52	70.28
<b>Hungary</b>	68.10	68.10	70.00	70.48	68.87
<b>Ireland</b>	89.05	85.71	90.00	91.90	93.40
<b>Italy</b>	67.62	68.57	65.24	64.29	66.98
<b>Lithuania</b>	80.48	80.48	81.43	80.95	79.72
<b>Luxembourg</b>	95.71	95.24	96.67	95.71	97.64
<b>Latvia</b>	79.52	82.38	76.19	76.67	75.00
<b>Malta</b>	78.10	76.67	80.95	77.14	76.89
<b>Netherlands</b>	96.19	96.67	97.14	96.19	95.28
<b>Poland</b>	71.90	70.48	64.29	61.43	61.79
<b>Portugal</b>	85.24	84.29	80.48	80.48	80.19
<b>Romania</b>	46.67	42.86	41.43	46.19	53.30
<b>Slovak Republic</b>	72.38	71.43	69.05	68.57	63.68
<b>Slovenia</b>	82.38	81.90	84.76	83.81	80.66
<b>Sweden</b>	94.29	94.76	94.76	95.24	94.81

Source: Own processing according to World Bank's WGI

### **Rule of Law by WGI**

Rule Law acts as an indicator which exhibits the countries efficiency in maintaining their law and order which resembles the level of Institutional Values and their effect of implementation. The values are taken for the States of European Union for the years 2018- 2022 and are expressed in Percentile.

Table 6 EU States and their Rule of law Percentile for the years 2018-2022

<b>Countries</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Austria</b>	98.57	98.57	97.14	97.14	95.75
<b>Belgium</b>	87.62	87.62	87.62	87.62	88.21
<b>Bulgaria</b>	50.95	52.38	49.05	52.38	49.53
<b>Croatia</b>	61.90	61.90	59.05	58.57	61.32
<b>Cyprus</b>	75.24	75.24	68.10	70.95	68.87
<b>Czechia</b>	81.90	81.90	82.86	83.33	83.49

<b>Denmark</b>	96.67	97.14	98.10	99.05	99.53
<b>Estonia</b>	85.71	86.19	88.57	88.10	89.62
<b>Finland</b>	100.00	100.00	100.00	100.00	100.00
<b>France</b>	88.10	88.57	87.14	87.14	85.38
<b>Germany</b>	91.43	92.38	90.95	91.43	91.98
<b>Greece</b>	57.14	57.62	60.00	60.48	59.91
<b>Hungary</b>	70.48	68.57	66.19	67.62	63.21
<b>Ireland</b>	88.57	88.10	89.52	90.48	91.51
<b>Italy</b>	60.00	60.48	57.62	58.10	58.49
<b>Latvia</b>	78.10	80.00	79.52	81.90	79.72
<b>Lithuania</b>	78.57	80.48	80.95	82.86	83.02
<b>Luxembourg</b>	96.19	96.19	95.71	96.67	98.58
<b>Malta</b>	81.43	79.05	78.10	77.14	76.42
<b>Netherlands</b>	95.71	95.71	94.76	94.76	93.40
<b>Poland</b>	63.81	63.33	67.62	64.29	64.15
<b>Portugal</b>	84.29	83.81	85.24	84.29	83.96
<b>Romania</b>	63.33	63.81	62.86	62.38	62.26
<b>Slovakia</b>	68.57	69.05	73.81	72.86	70.28
<b>Slovenia</b>	82.38	82.86	83.33	82.38	82.55
<b>Spain</b>	80.48	80.95	76.67	77.62	77.36
<b>Sweden</b>	97.14	96.67	96.67	95.24	93.87

Source: Own Processing according to World Bank's WGI

### **Control of Corruption by WGI**

The Control of Corruption indicates how the country holds its institutional values strong in every department. so, this will support our thesis by indicating the countries with higher control leads to the prosperity. The data is driven from the reports of World Bank for the Years 2018-2022 and expressed in percentile between all European Union countries.

Table 7 EU States and their Control of Corruption Percentile for the years 2018-2022

<b>Countries</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Austria</b>	90.95	90.48	90.95	85.71	84.91
<b>Belgium</b>	89.52	89.52	90.00	89.52	89.62
<b>Bulgaria</b>	49.05	49.52	44.29	48.10	50.00
<b>Croatia</b>	57.14	58.10	59.52	56.67	66.04
<b>Cyprus</b>	72.38	70.95	63.33	63.33	74.53
<b>Czechia</b>	68.57	69.05	69.05	71.90	95.75
<b>Denmark</b>	99.52	99.52	100.00	100.00	100.00
<b>Estonia</b>	90.00	90.95	92.38	90.00	75.00
<b>Finland</b>	100.00	98.57	99.52	99.52	91.04
<b>France</b>	87.62	88.57	83.81	89.05	99.53
<b>Germany</b>	95.71	95.24	95.24	95.71	85.38
<b>Greece</b>	54.76	56.67	57.14	59.52	56.60
<b>Hungary</b>	58.10	57.62	58.10	55.24	59.91
<b>Ireland</b>	90.48	90.00	91.43	92.86	51.42
<b>Italy</b>	60.95	61.43	67.14	67.62	93.87
<b>Latvia</b>	62.38	66.67	74.76	76.19	68.87
<b>Lithuania</b>	66.67	73.81	78.57	79.52	76.42
<b>Luxembourg</b>	97.14	97.62	96.67	96.19	96.23
<b>Malta</b>	70.00	60.48	62.86	62.86	75.47
<b>Netherlands</b>	95.24	95.71	96.19	97.14	61.79
<b>Poland</b>	73.33	71.43	72.38	68.10	96.70
<b>Portugal</b>	79.05	76.67	76.67	77.14	68.40
<b>Romania</b>	48.10	47.62	51.43	51.43	75.94
<b>Slovakia</b>	61.43	59.52	64.29	60.00	55.66
<b>Slovenia</b>	79.52	80.00	78.10	75.24	60.38
<b>Spain</b>	72.86	73.33	75.71	75.71	78.30
<b>Sweden</b>	98.10	98.10	98.10	97.62	97.64

Source: Own processing according to World Bank's WGI

## **Voice of Accountability by WGI**

The Voice of Accountability indicates the regulation on accounting and defines the monetary transparency of the government and citizens. It is also an institutional value which is followed by the nations. So, this will add as one of the indicators of institutional values in EU countries. It is expressed in terms of percentile.

*Table 8 EU States and their Voice of Accountability for the years 2018-2022*

<b>Country/Territory</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Austria</b>	94.66	94.69	95.65	94.69	94.20
<b>Belgium</b>	92.72	93.72	90.82	90.34	92.75
<b>Bulgaria</b>	58.74	58.45	56.04	56.52	57.00
<b>Costa Rica</b>	83.50	84.06	85.99	83.09	82.13
<b>Cyprus</b>	80.58	81.16	75.36	73.43	73.91
<b>Czech Republic</b>	74.76	73.43	78.74	79.71	80.68
<b>Germany</b>	95.15	95.17	94.20	95.65	94.69
<b>Denmark</b>	97.57	98.55	97.58	98.55	98.07
<b>Spain</b>	81.55	80.68	80.19	79.23	79.71
<b>Estonia</b>	88.83	87.44	87.92	88.41	87.92
<b>Finland</b>	98.54	99.52	99.52	99.52	98.55
<b>France</b>	86.89	85.51	81.64	85.51	85.99
<b>Greece</b>	71.84	72.46	78.26	77.78	76.81
<b>Croatia</b>	60.68	60.39	64.73	64.73	66.18
<b>Hungary</b>	64.08	57.97	58.94	58.94	59.90
<b>Ireland</b>	91.75	93.24	95.17	95.17	96.14
<b>Italy</b>	78.16	76.81	81.16	83.57	82.61
<b>Lithuania</b>	77.18	80.19	80.68	80.68	81.16
<b>Luxembourg</b>	97.09	97.10	96.62	97.58	97.10
<b>Latvia</b>	73.30	73.91	73.43	74.88	75.85
<b>Malta</b>	82.52	82.61	85.02	82.61	83.57
<b>Netherlands</b>	96.12	96.62	98.07	96.62	97.58
<b>Poland</b>	70.87	69.57	66.18	63.77	65.22
<b>Portugal</b>	87.86	88.41	89.37	89.37	89.86
<b>Romania</b>	65.53	64.25	65.22	64.25	63.77

<b>Slovak Republic</b>	75.24	74.40	74.88	75.85	75.36
<b>Slovenia</b>	78.64	78.74	77.29	76.33	77.78
<b>Sweden</b>	98.06	99.03	97.10	97.10	96.62

Source: Own processing according to world bank's WGI

### **Regulatory Quality by WGI**

Regulatory Quality defines how the regulations are formed on a quality basis and how it is maintained in EU states, and it is ranked according to its efficiency and performance. This data can be taken as an indicator for exhibiting the institutional values. It is expressed in percentile between the EU states.

*Table 9 EU States and their Regulatory Quality for the years 2018-2022*

<b>Countries</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Austria</b>	91.43	91.43	90.95	87.14	87.26
<b>Belgium</b>	86.67	87.62	89.05	86.67	86.79
<b>Bulgaria</b>	72.38	70.48	65.71	66.67	61.79
<b>Croatia</b>	69.05	71.90	63.33	68.10	68.40
<b>Cyprus</b>	78.10	80.00	80.95	76.67	75.47
<b>Czechia</b>	87.14	86.67	86.67	87.62	88.68
<b>Denmark</b>	93.81	92.38	97.62	97.62	98.58
<b>Estonia</b>	91.90	92.86	92.86	92.86	92.92
<b>Finland</b>	96.19	97.62	99.05	99.05	97.17
<b>France</b>	83.81	90.95	85.24	85.71	85.38
<b>Germany</b>	95.24	96.19	93.33	94.76	92.45
<b>Greece</b>	66.19	70.00	71.43	66.19	67.45
<b>Hungary</b>	70.95	72.38	66.67	67.62	64.62
<b>Ireland</b>	93.33	93.33	91.90	93.33	95.28
<b>Italy</b>	75.24	77.14	68.10	68.57	68.87
<b>Latvia</b>	83.33	83.81	84.29	85.24	84.91
<b>Lithuania</b>	82.38	82.86	83.33	86.19	87.74
<b>Luxembourg</b>	94.76	95.24	98.57	99.52	98.11
<b>Malta</b>	88.57	76.67	85.71	74.29	73.11

<b>Netherlands</b>	99.05	98.10	96.67	96.19	96.70
<b>Poland</b>	78.57	80.48	76.19	75.71	74.53
<b>Portugal</b>	79.05	77.62	75.24	73.33	75.00
<b>Romania</b>	67.14	66.19	62.86	61.90	63.68
<b>Slovakia</b>	75.71	79.52	74.29	77.62	76.89
<b>Slovenia</b>	73.81	79.05	77.14	74.76	73.58
<b>Spain</b>	80.48	81.90	73.81	73.81	75.94
<b>Sweden</b>	97.62	96.67	95.24	96.67	96.23

Source: Own processing according to World Bank's WGI

### **Political Stability and Absence of Violence/ Terrorism**

The political stability and absence of violence or terrorism exhibits how good the country maintains its governing bodies and how the departments work maintaining the institutional values of its own domain. This is taken an indicator to exhibit the countries governance. European Union countries data on political stability is driven from World bank and it's expressed in percentile.

Table 10 EU States and their Political Stability Report for the years 2018-2022

<b>Country/Territory</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Austria</b>	77.36	77.36	76.89	79.25	68.87
<b>Belgium</b>	59.43	60.85	64.15	67.45	65.57
<b>Bulgaria</b>	61.79	66.04	58.49	58.02	52.36
<b>Costa Rica</b>	62.26	60.38	71.70	76.89	83.49
<b>Cyprus</b>	63.21	64.15	56.60	58.96	58.96
<b>Czech Republic</b>	86.32	80.19	77.83	81.60	75.00
<b>Germany</b>	64.62	65.09	67.92	69.81	67.45
<b>Denmark</b>	79.72	81.13	78.30	80.19	77.36
<b>Eritrea</b>	25.00	21.23	15.09	13.68	14.62
<b>Spain</b>	56.60	58.02	58.96	61.79	53.30
<b>Estonia</b>	65.09	67.45	70.75	70.75	71.70
<b>Finland</b>	77.83	75.94	80.66	83.49	79.72
<b>France</b>	48.11	57.08	56.13	56.60	56.13



<b>Greece</b>	53.30	54.25	51.42	50.94	49.06
<b>Croatia</b>	71.70	70.28	66.51	66.04	66.98
<b>Hungary</b>	70.75	71.70	74.06	73.11	67.92
<b>Ireland</b>	85.38	80.66	80.19	75.94	78.77
<b>Italy</b>	57.08	58.96	58.02	63.68	58.49
<b>Lithuania</b>	69.81	72.17	78.77	73.58	69.34
<b>Luxembourg</b>	95.75	95.28	93.40	93.40	86.32
<b>Latvia</b>	59.91	59.91	60.85	67.92	60.38
<b>Malta</b>	93.87	83.02	82.08	77.83	80.66
<b>Netherlands</b>	75.47	75.47	73.58	78.30	71.23
<b>Poland</b>	62.74	65.57	62.26	61.32	61.79
<b>Portugal</b>	89.15	87.26	83.49	81.13	75.94
<b>Romania</b>	49.06	63.68	62.74	64.15	60.85
<b>Slovak Republic</b>	70.28	68.87	67.45	65.57	59.91
<b>Slovenia</b>	78.30	74.53	69.81	71.23	70.75
<b>Sweden</b>	79.25	82.55	81.60	84.43	80.19

Source: Own processing according to World Bank's WGI.

## **4. Analytical Research**

The indicators selected for the scientific research for economic and social prosperity are GDP, which reflects the growth and expenditure allowance of the citizens of the countries in European Union. GDP Per capita, which is the standard of living population of the individual countries. Human Development Index (HDI), which is the aggregate indicator of education, per capita and life expectancy, and Income Inequality as Gini Coefficient, which summarizes the dispersion of income across the entire income distribution.

The institutional indicators like Control of Corruption, Rule of Law and Regulatory Quality are chosen for the scientific testing as these factors showed more theoretical significance to the assumptions as the control of corruption is an important factor on deciding the economy of the nation according to (Méndez-Picazo et al. 2012) corruption has negative effects on a nation's wealth and economic growth, discouraging new investments and creating uncertainty over private and social rights. This uncertainty acts as a cost on entrepreneurship, decreasing return on investment and increasing its variation, which discourages investment activities, where the rule of law stands out to hold an impact on the economic growth according to (Zywicki 2003) the rule of law provides an institutional framework conducive to investment, entrepreneurship, and long-term capital development. The regulatory quality holds a very notable impact on the financial development on the system of governance as (Lee et al. 2021) argues that the quality of regulation plays an important role in the finance-growth nexus as it has a mediating effect on both the real and financial sectors. The other indicators such as The Voice of Accountability, Political Stability and Absence of violence/terrorism and Governance efficiency are not considered for the scientific testing as these indicators showed the least or null significance to the Economic indicators.

## **4.1 Research Tool**

The research is performed in a software called Statistica, a comprehensive statistical software package developed by StatSoft, offers a diverse array of tools and tests to analyse complex datasets and elucidate relationships between variables. Renowned for its user-friendly interface and powerful analytical capabilities, Statistica is widely employed across disciplines for data exploration, hypothesis testing, and predictive modelling. At the core of Statistica's functionality lies a suite of statistical tools designed to uncover patterns, trends, and associations within data. These tools encompass a wide range of analyses, including descriptive statistics, inferential statistics, and advanced modelling techniques. Key features include descriptive statistics for summarizing and visualizing data, inferential statistics for hypothesis testing, correlation analysis to explore relationships between variables, regression analysis for predictive modelling, factor analysis for identifying underlying dimensions, and structural equation modelling (SEM) for testing complex theoretical models. Through these tools, we can derive actionable insights and advance knowledge across diverse domains.

### **4.1.1 Multiple Linear Regression**

Multiple linear regression in Statistica is a powerful statistical technique used to model the relationship between a single dependent variable and two or more independent variables. This method allows us to assess how changes in the independent variables impact the dependent variable while controlling for the effects of other variables.

#### ***Components of the results in Statistica typically include***

- Regression Coefficients - Estimates of the coefficients for each independent variable in the model.
- Standard Errors - Standard deviations of the coefficient estimates.
- t-Statistics - Measures of the significance of each coefficient.
- p-Values: Probability values indicating the significance of each coefficient.
- Confidence Intervals - Intervals around the coefficient estimates indicating the range of likely values.

- R-squared - Proportion of variance in the dependent variable explained by the independent variables.
- F-Statistic - Overall significance test for the regression model

Multiple linear regression analysis in Statistica will provides us with valuable insights into the relationships between variables and helps to identify significant predictors of the outcome of interest.

#### **4.1.2 Scatterplot Diagram**

A scatterplot in Statistica serves as a graphical representation illustrating the relationship between two continuous variables within a dataset. Its primary purpose is to visually depict patterns, correlations, and outliers present in the data, offering insights into the nature of the relationship between the variables. The scatterplot is constructed on a Cartesian coordinate system, where each data point represents an individual observation. The horizontal axis (x-axis) typically represents one variable, while the vertical axis (y-axis) represents the other. Both axes are labelled to denote the variables being compared, providing context for interpretation. Additionally, the scales of the axes are calibrated to ensure accurate representation of the data points. Optionally, a trend line may be included to provide a visual approximation of the overall direction or trend of the data. A descriptive title is often added to the plot to provide further context or explanation. By examining the scatterplot, we can quickly assess the strength, direction, and form of the relationship between the variables, facilitating data-driven decision-making and further analysis.

#### **4.2 Evaluating the relationship between institutional and macroeconomic indicators**

The research part is initiated by the procedures of Statistica. The method we have chosen to prove the relationship and correlation between the institutional indicators and economic indicators. The tool multiple linear regression model is performed taking all the economic indicators GDP, GDP per capita, Human Development Index and Income Inequality as Gini Coefficient as dependent variable and all the three chose institutional indicators Control of Corruption (COC), Rule of Law (ROL) and Regulatory Quality (RQ).

The results came as regression summary state that there is no correlation between both the indicators which was quite disappointing, but it gave the understanding that not all factors can create an impact on a whole system of multiple factors. So, we decide to create datasets incorporating all the data for the respective years.

As GDP, GDP per Capita, HDI and Gini Coefficient are taken together as dependent variable on multiple linear regression showed no significance with the independent variable of Control of Corruption (COC), Rule of Law (ROL) and RQ (Regulatory Quality) as the significance level  $\alpha > 0.05$ . so, we have taken GDP alone as dependent variable on multiple linear regression with COC, ROL and RQ as the independent variable to check the significance.

*Table 11 Regression Summary of Dependent variable GDP and Independent Variable COC, ROL and RQ from Statistica*

Regression Summary for Dependent Variable: GDP (Spreadsheet1)						
R= ,29732281 R2= ,08840085 Adjusted R2= ,08154672						
F(1,133)=12,897 p<,00046 Std.Error of estimate: 7875E2						
N=135	b*	Std.Err. of b*	b	Std.Err. of b	t(133)	p-value
Intercept			-632635	330822,0	-1,91231	0,057987
COC	0,297323	0,082790	15109	4207,0	3,59130	0,000462

Source: Results from Statistica

As the result shows, GDP established the significance only with Control of Corruption (COC) and other indicators ROL and RQ haven't shown any significance. Based on the regression summary the R-squared value of 0.0884 indicates that 8.84% of the variations in GDP is explained by the linear relationship with COC. The explanatory power is relatively weak which indicates there might be other important factors influencing GDP. The p-value of F-statistic  $\alpha$  is 0.000462 which is less than 0.05, which defines that we can reject the null hypothesis there is no linear relationship between COC and GDP. There is a statistically significant relationship between the two variables at the 5% significance level. The standard error of the COC coefficient (0.082790) indicates the variability around the coefficient estimate which shows there is 95% chance that the true population coefficient falls within the range of  $0.297323 \pm 2*0.082790$ . The t-statistic value of 3.59130 is the coefficient estimate divided by its

standard error where the absolute value of the t-statistic value is greater than 1.96, which corresponds to a two-tailed p-value of less than 0.05. This reflects statistical significance relationship between COC and GDP. On further the coefficient of COC (0.297323) is positive. This means that there is a positive linear relationship between COC and GDP, which means as the value of COC increases, the value of GDP also tends to increase. The result supports our assumption partially that at least COC has impact and influence in GDP.

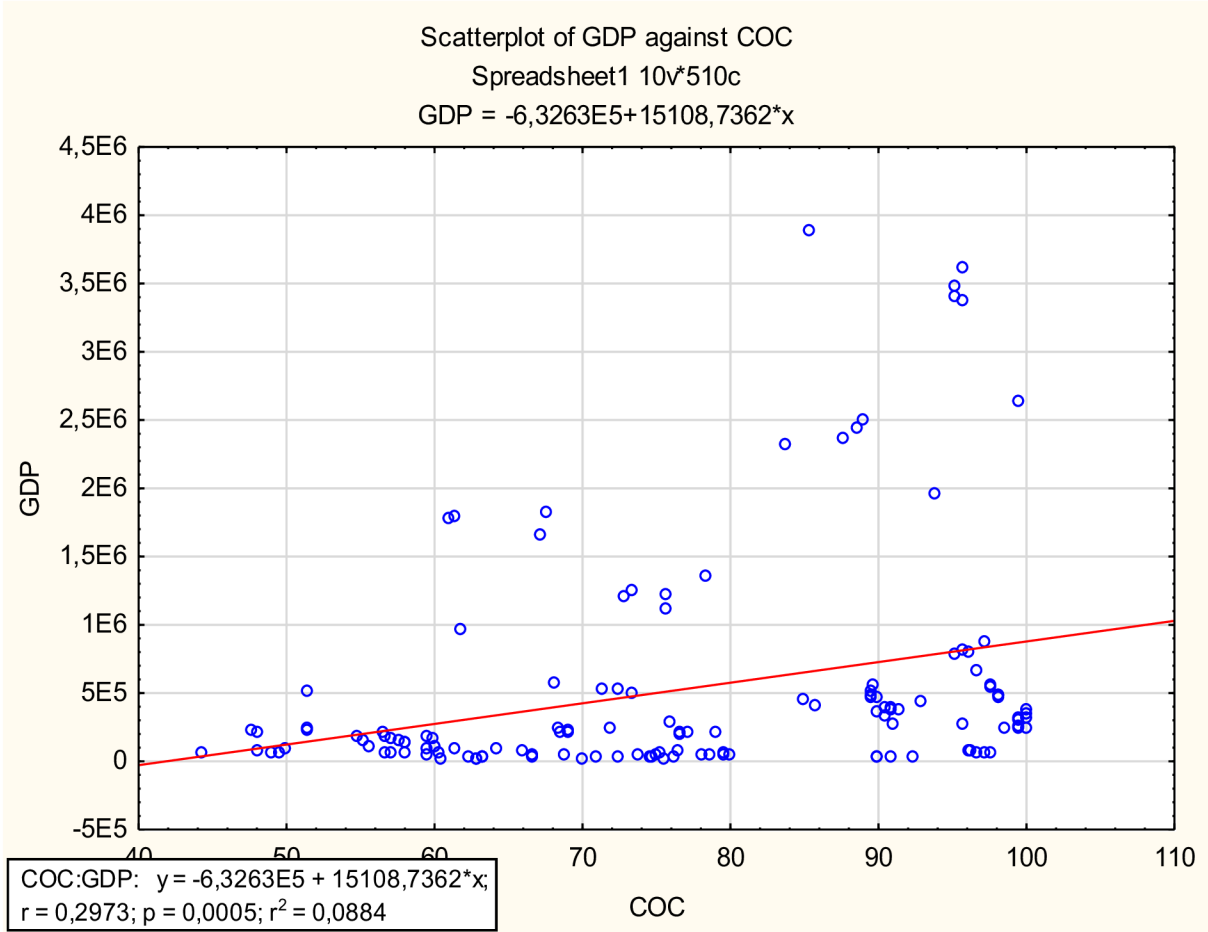


Figure 1 Scatterplot of GDP against COC from Statistica.  
Source: results from Statistica

The scatterplot diagram displays the regression line equation which is  $GDP = -6,3263E5 + 15108,7362*x$ , The slope of the regression line is positive (15208.74), which again confirms the results of the linear regression analysis that there is statistically significant positive relationship between GDP and COC.

As we got other economic indicators to check its relationship, GDP Per capita is taken as the dependent variable against all institutional variables COC, ROL and RQ. The multiple linear regression is performed and the results in Tab.12 and Fig.1.

Tab.12 Regression Summary of Dependent Variable GDP Per Capita and Independent Variable COC, ROL and RQ from Statistica

Regression Summary for Dependent Variable: GDP_per_capita (Spreadsheet1) R= ,70013054 R2= ,49018277 Adjusted R2= ,48634956 F(1,133)=127,88 p<0,0000 Std.Error of estimate: 12773,						
N=135	b*	Std.Err. of b*	b	Std.Err. of b	t(133)	p-value
Intercept			-66963,0	8458,908	-7,91627	0,000000
RQ	0,700131	0,061913	1146,4	101,380	11,30831	0,000000

Source: Results from Statistica

Again, the result shows that the GDP Per Capita established significance only with Regulatory Quality (RQ) leaving no significance with COC and ROL. The R-squared value is 0.4901, which means that 49.01% of the variation in GDP per capita is explained by the linear relationship Regulatory Quality (RQ). This is a moderate explanatory power, indicating that there might be other important factors affecting GDP per capita. The adjusted R-square value is 0.4863, which is slightly lower than the R-square value. This adjustment accounts for the number of independent variables in the model and helps to prevent overfitting. The F-statistic value is 127.88 with a p-value less than 0.0000. The statistically significant result p-value  $\alpha < 0.05$  implies that there is a linear relationship between Regulatory Quality (RQ) and GDP per capita. The standard error of the coefficient is 0.0619, which represents the variability around the coefficient estimate. There is a 95% chance that the true population coefficient falls within the range of  $0.7001 \pm 2 * 0.0619$ . The t-statistic value 11.31 is the coefficient estimate divided by its standard error. The absolute value of the t-statistic is greater than 1.96, which corresponds to two-tailed p-value pf less than 0.005, Which shows there is a statistically significant positive relationship between RQ and GDP per capita. The coefficient of RQ is 0.7001 with the p-value of 0.0000. This positive coefficient indicates that there is a positive linear relationship between Regulatory Quality (RQ) and GDP per capita, which means when the Regulatory Quality increases the GDP per capita also

tends to increase. Which supports our assumption partially that Regulatory Quality has impact and influence on GDP per capita.

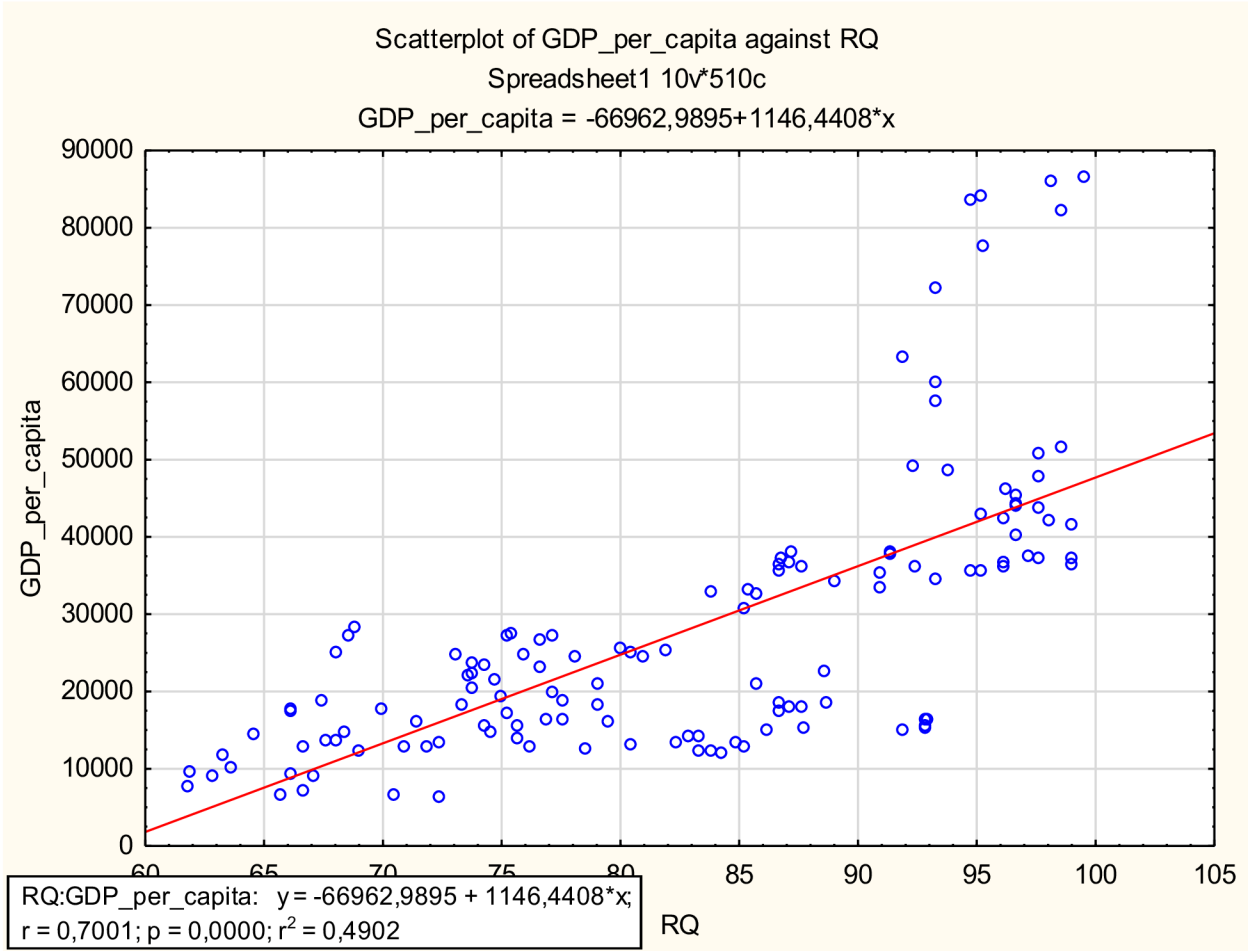


Figure 2 Scatterplot of GDP per capita against Regulatory Quantity (RQ) from Statistica.  
Source: Results from Statistica.

The scatterplot diagram displays the equation for the regression line which is  $GDP\ per\ capita = -66962,9895 + 1146,4408 \cdot x$ , The slope of the regression line is positive (1146.44), which confirms the positive relationship between GDPs per capita and RQ. The scatterplot confirms the result of the linear regression analysis provided marking the statement that there is a statistically significant positive relationship between Regulatory Quality (RQ) and GDP per capita.

The economic indicators Income Inequality (Gini Coefficient) and Human Development Index (HDI) still haven't subjected to the regression model. So, we have taken Income Inequality (Gini coefficient) as dependent variable and COC, RQ and ROL as the



independent variable and perform multiple linear regression and the results in Tab.13 and Fig.2

Table 13 Regression Summary of Dependent Variable Gini Coefficient and Independent variable COC, RQ and ROL from Statistica

Regression Summary for Dependent Variable: GINI (Spreadsheet1)						
R= ,39076499 R2= ,15269728 Adjusted R2= ,14632658						
F(1,133)=23,969 p<,00000 Std.Error of estimate: 3,6925						
N=135	b*	Std.Err. of b*	b	Std.Err. of b	t(133)	p-value
Intercept			38,37408	1,855895	20,67685	0,000000
ROL	-0,390765	0,079817	-0,11182	0,022841	-4,89578	0,000003

Source: Results from Statistica

Like the previous result, The Income Inequality (Gini Coefficient) has established relationship only with Rule of Law (ROL). The R-square value of 0.1527 indicates that 15.27% of the variation in the Gini coefficient is explained by the linear relationship with ROL. This is relatively weak explanatory power. There might be other important factors affecting the Gini coefficient. The p-value of the F-statistic value 0.000003 which is less than 0.05, which means there is a statistically significant relationship between the two variables at the 5% significance level. The standard error of ROL coefficient is 0.0798 which indicates the variability around the coefficient estimate. There is a 95% chance that the true population coefficient falls within the range of  $-0.3908 \pm 2 * 0.0798$ . The t-statistic value is -4.8958 is the coefficient estimate divided by its standard error. The absolute value of the t-statistic is greater than 1.96, which corresponds to two-tailed p-value of less than 0.05 which establishes that there is a statistically significant relationship between ROL and the Gini coefficient. The coefficient of ROL is -0.3908. This means that there is a negative linear relationship between ROL and the Gini coefficient. In other words, as the Rule of law strengthens (higher ROL value), the Gini coefficient tends to decrease, which suggests a more equal distribution of income. The result supports our assumption that Rule of Law has impact on Gini coefficient.

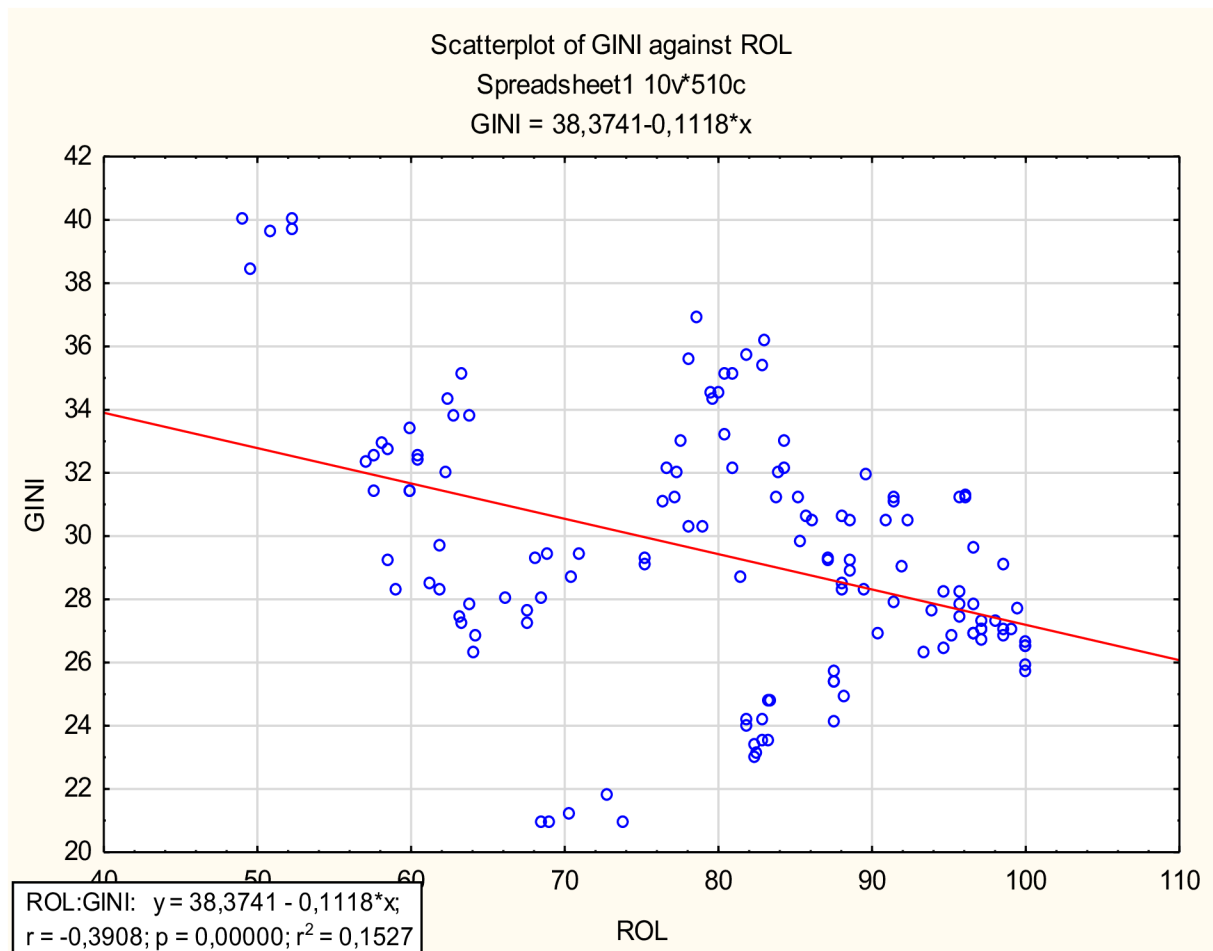


Figure 3 Scatterplot of Gini Coefficient against Rule of Law (ROL) from Statistica.

Source: Results from Statistica.

The scatterplot displays the equation for the regression line which is Gini Coefficient =  $38,3741 - 0,1118 * ROL$ . The slope of regression line is negative (-0.1118), which confirms the negative relationship between the Gini coefficient and ROL. Again, the scatterplot confirms the result of the linear regression analysis that there is a statistically significant negative relationship between ROL and Gini coefficient.

The final economic indicator Human Development Index (HDI) is subject to perform multiple linear regression as dependent variable with COC, ROL and RQ as independent variable. The result Tab.14 and Fig.3.

Table 14 Regression Summary of Dependent Variable HDI and Independent variables COC, ROL and RQ from Statistica

Regression Summary for Dependent Variable: HDI (Spreadsheet 1)						
R= ,81911800 R2= ,67095430 Adjusted R2= ,66596876						
F(2,132)= 134,58 p<0,0000 Std.Error of estimate: ,02171						
N=135	b*	Std.Err. of b*	b	Std.Err. of b	t(132)	p-value
Intercept			0,694688	0,015027	46,22791	0,000000
COC	0,396853	0,084643	0,000922	0,000197	4,68857	0,000007
RQ	0,464496	0,084643	0,001603	0,000292	5,48773	0,000000

Source: Results from Statistica

Unlike the previous results, Human Development Index has established relationship with two indicators COC and RQ. The R-squared value is 0.6709, which means that 67.07% of the variation in the Human Development Index (HDI) is explained by the linear relationship with Regulatory Quality (RQ) and the Control of Corruption (COC). This is a moderately strong explanatory power, indicating that RQ and COC together play a significant role in explaining the variation in HDI. Adjusted R-squared value is 0.6659, which is slightly lower than the R-squared value. This adjustment accounts for the number of independent variables in the model and helps to prevent overfitting. F-statistic is 134.58 with a p-value is less than 0.0000. This statistically significant result (p value < 0.05) implies that there is a linear relationship between Regulatory Quality, Control of Corruption, and Human Development Index. The standard error of the estimate is 0.0217 which represents the standard deviation of the residuals from the regression line.

The coefficient of RQ is 0.4645 with the p-value of 0.0000. This is positive coefficient indicates that there is a positive linear relationship between Regulatory Quality and HDI. In other words, as the RQ improves, the HDI also tends to increase. The Standard error of the coefficient is 0.0846, which represents the variability around the coefficient estimate. There is a 95% chance that the true population coefficient falls within the range of  $0.4645 \pm 2 * 0.846$ . The t-statistic of RQ is 5.4877 is the coefficient estimate divided by its standard error. The absolute value of the t-statistic is greater than 1.96, which corresponds to a two-tailed p-value of less than 0.05 which further supports the conclusion that there is a statistically significant positive relationship between Regulatory Quality and Human Development Index (HDI).

The coefficient of COC is 0.3969 with a p-value of 0.0007. This positive coefficient indicates that there is a positive linear relationship between Control of Corruption and HDI. In other words, as Control of Corruption improves, the Human Development Index also tends to increase. The standard error of the coefficient is 0.0846, which represents the variability around the coefficient estimate. There is a 95% chance that the true population coefficient falls within the range of  $0.3969 \pm 2 * 0.0846$ . The t-statistic (4.6886) is the coefficient estimate divided by its standard error. The absolute value of the t-statistic is greater than 1.96, which corresponds to a two-tailed p-value of less than 0.05. This further supports the conclusion that there is a statistically significant positive relationship between Control of Corruption and HDI.

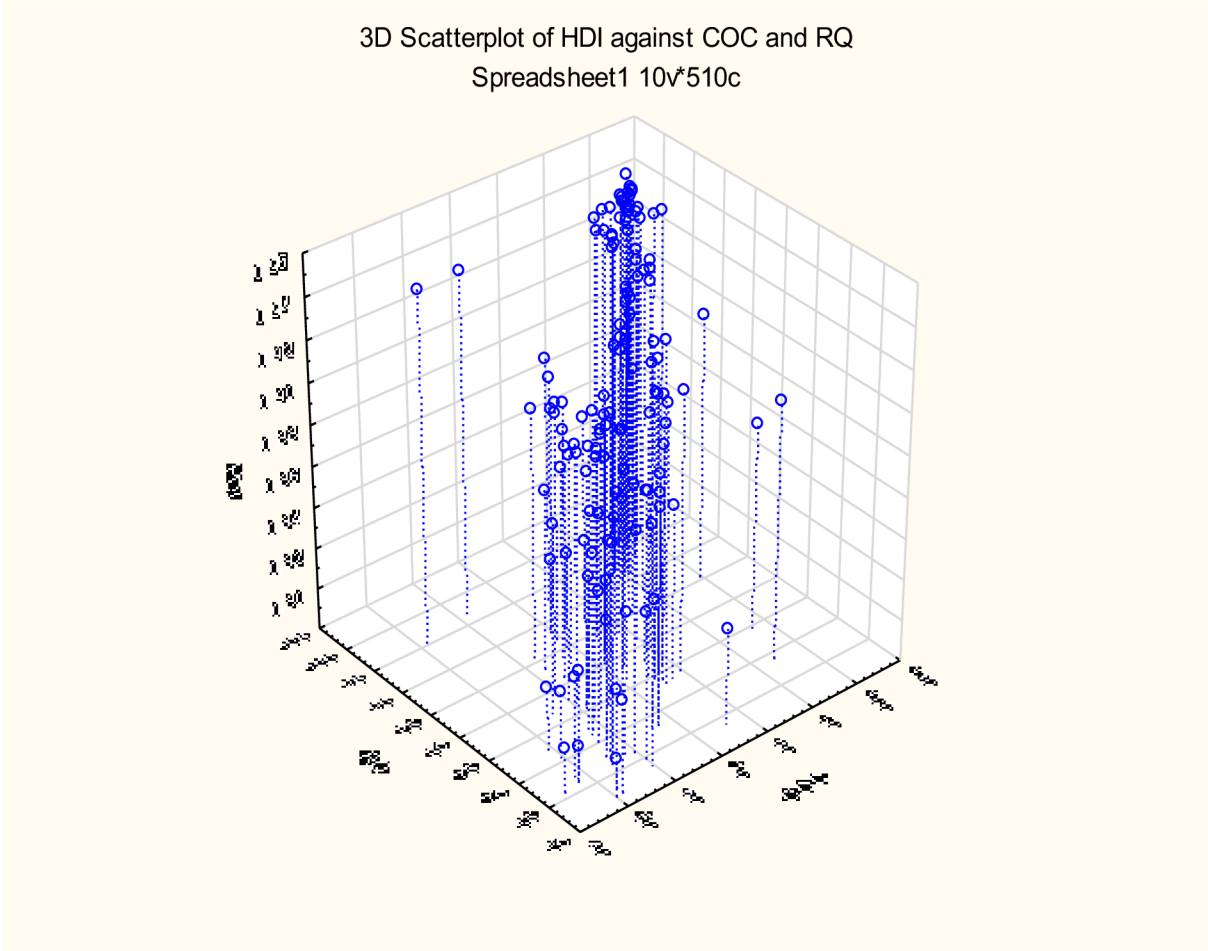


Figure 4 3D Scatterplot of HDI against COC and RQ from Statistica.  
Source: Results from Statistica.

The 3D scatterplot confirms the results of the multiple linear regression analysis you provided earlier. There are statistically significant positive relationships between Regulatory Quality (RQ), Control of Corruption (COC), and Human Development Index

(HDI). Together, RQ and COC explain a moderately strong proportion of the variation in HDI. The 3D scatterplot provides a more visual representation of the relationships between the variables compared to the table of regression coefficients. The fitted surface can be helpful for understanding how changes in RQ and COC are predicted to affect HDI. However, it is important to remember that the fitted surface is a simplification of the real-world relationships, and there will always be some variability around the surface.

### **4.3 Result**

Table 11,12,13 and 14 and Figure 1,2,3 and 4 reveals the result and summary of Multiple Linear Regression with Scatterplot diagram to picture the relationship. The results from Tab.11 and fig.1 reveals a statistical significance relationship between Control of Corruption and GDP and the coefficient of COC (0.297323) is positive. This means that there is a positive linear relationship between COC and GDP, which means as the value of COC increases, the value of GDP also tends to increase.

The results from Table 12 and figure 2 reveals a statistically significant positive relationship between Regulatory Quality and GDP per capita. The coefficient of Regulatory Quality (0.7001) is positive which indicates that there is a positive linear relationship between Regulatory Quality (RQ) and GDP per capita, which means when the Regulatory Quality increases the GDP per capita also tends to increase.

The results from Table 13 and figure 3 reveals a statistically significant relationship between Rule of Law and the Gini coefficient. The coefficient of ROL (-0.3908) is negative which means that there is a negative linear relationship between ROL and the Gini coefficient. As the Rule of law strengthens (higher ROL value), the Gini coefficient tends to decrease, which suggests a more equal distribution of income.

The results from Table 14 and figure 4 reveals a statistically significant result implies that there is a linear relationship between Regulatory Quality, Control of Corruption, and Human Development Index. The coefficient of RQ is 0.4645 is positive coefficient indicating that there is a positive linear relationship between Regulatory Quality and HDI. In other words, as the RQ improves, the HDI also tends to increase, and

the coefficient of COC is 0.3969 with a p-value of 0.0007. This positive coefficient indicates that there is a positive linear relationship between Control of Corruption and HDI. In other words, as Control of Corruption improves, the Human Development Index also tends to increase.

Though all institutional indicators didn't showed relationship with all the economic indicators but have at least each of the institutional indicator showed a relationship with each of the economic indicators explaining that institutional indicators like Control of Corruption, Rule of Law, and Regulatory Quality influence GDP, GDP Per capita, Human Development Index (HDI) and Income Inequality (Gini Coefficient). Hence these results support our assumption strongly as the institutional indicators are taken as independent variables and economic indicators are taken as dependent variables in the scientific research part.

## **Conclusion**

The aim of this thesis is to prove the research assumption that a quality institutional environment causes a better macroeconomic environment, which creates a suitable framework for entrepreneurship and therefore the overall prosperity of a country. For the research we have taken countries of European Union.

The research assumptions were proven and accepted that countries with higher institutional values holds a higher financial and social stability and growth.

The aim of the thesis was to find answers to the following research questions:

1. What are the elements or parts of the Institutional and Macroeconomic Environment and their connection between them?
2. What are the key indicators of a quality institutional environment, and how do they influence the macroeconomic environment?
3. How does the quality of institutions, such as the legal system, regulatory framework, and government effectiveness, impact key macroeconomic indicators such as GDP growth, GDP per Capita and Social Indicators such as Human Development Index (HDI) and Income Inequality (Gini Coefficient)?

The research questions are answered in the respective chapters mentioned.

### ***What are the elements or parts of the Institutional and Macroeconomic Environment and their connection between them***

Based on the conducted literature research, the elements of the institutional and macroeconomic environment are detailed explained on the initial chapters explains the entire structure of Institutionalism, Institutional Values, Macroeconomic factors, and its environments. The research has given enough statements from the research of scholars stating the impact of institutional values on economy development of the country.

***What are the key indicators of a quality institutional environment, and how do they influence the macroeconomic environment?***

The investigation into the influence of institutional quality on macroeconomic environments has revealed critical insights into the determinants of a nation's prosperity. Beyond mere economic metrics, such as GDP and GDP per capita, this inquiry extends to encompass indicators of individual and social development, including the Human Development Index (HDI) and measures of income inequality.

In delineating the key indicators of a quality institutional environment, emphasis is placed on governance indicators that reflect the integrity and efficacy of a nation's institutional framework. These indicators encompass fundamental values essential for national stability and progress, including Accountability, Governance Effectiveness, Political Stability and Absence of Violence/Terrorism, Rule of Law, Regulatory Quality, and Control of Corruption. The selection of these indicators is predicated on their relevance to the research assumptions and their demonstrable impact on macroeconomic outcomes.

The process of data collection has been instrumental in elucidating the parameters and methodologies underpinning these institutional indicators. Through meticulous examination, a nuanced understanding of each indicator's purpose and calculation methodology has been attained. Notably, indicators such as GDP and GDP per capita are expressed in currency terms (e.g., Euros for European countries) and disseminated through reputable sources such as Eurostat. Similarly, the Human Development Index (HDI), incorporating dimensions of life expectancy, education, and per capita income, is published in Human Development Reports. Conversely, measures of income inequality, represented by the Gini Coefficient, are disseminated through Eurostat, facilitating clear interpretation of distributional disparities. Governance stability indicators, sourced from the World Bank, are delineated in percentiles relative to performance among European Union member states, providing a comprehensive assessment of institutional robustness.



***How does the quality of institutions, such as the legal system, regulatory framework, and government effectiveness, impact key macroeconomic indicators such as GDP growth, GDP per Capita and Social Indicators such as Human Development Index (HDI) and Income Inequality (Gini Coefficient)?***

This study set out to investigate the premise that a robust institutional environment fosters a conducive macroeconomic climate, thereby nurturing a favorable landscape for entrepreneurship and, consequently, enhancing overall national prosperity. Through an analysis focused on European Union countries, the examination delved into the relationship between key institutional indicators and various economic parameters.

The findings of this study underscore the significance of institutional quality in shaping macroeconomic outcomes. The results revealed compelling evidence of statistically significant relationships between institutional indicators and key economic metrics. Notably, Control of Corruption (COC) exhibited a positive linear association with Gross Domestic Product (GDP), suggesting that an improvement in COC tends to correspond with an increase in GDP. Similarly, Regulatory Quality (RQ) demonstrated a positive correlation with GDP per capita, indicating that enhancements in regulatory standards tend to elevate per capita GDP figures.

Furthermore, the analysis unveiled intriguing insights into the impact of institutional factors on income distribution. The inverse relationship observed between Rule of Law (ROL) and the Gini coefficient suggests that strengthening the rule of law correlates with a more equitable distribution of income, thereby mitigating income inequality within a society.

Moreover, the interconnectedness of institutional indicators was elucidated through their collective influence on the Human Development Index (HDI). Both Regulatory Quality and Control of Corruption exhibited positive associations with HDI, indicating that improvements in these institutional facets contribute to advancements in human development outcomes.

On whole, The findings of this study strongly support the idea that a good institutional environment leads to better economic conditions, providing a favourable environment for entrepreneurs and inspiring confidence among investors. Through thorough statistical analysis, it becomes clear that there is a significant connection between the quality of institutions and economic performance, highlighting the crucial role of strong institutions in shaping a country's prosperity.

The evidence presented here demonstrates that improving institutional quality not only boosts economic indicators but also encourages investment. The positive relationship between institutional integrity and key economic measures like Gross Domestic Product (GDP), GDP per capita, and Human Development Index (HDI) underscores the importance of investing in strong institutions.

Strong institutions offer stability and transparency, which attract both local entrepreneurship and foreign investment. By improving institutional quality, nations can stimulate economic growth and address employment challenges. This study confirms that enhancing institutional integrity is essential for fostering economic progress and ensuring inclusive development.

In conclusion, prioritizing the strength and integrity of institutions is crucial for sustainable economic development. As policymakers and stakeholders plan for the future, they must recognize the central role that institutions play in driving growth, resilience, and societal advancement in today's interconnected world.

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