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## Agents, Institutions and Regions in Transition

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## Agents, institutions and regions in transition

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### **Abstract**

*The goal in this paper is to sketch a line of approach which may help order considerations of transition in various regions. Adjustments to change can occur in various ways, and they do. Dealing with such diversity is a challenge for analysts and policy makers in various sectors, regions and organisations. The regional analyst has particular issues in dealing with diversity both within and between regions for which existing tools and approaches provide only partial support.*

*Agents are a key and dynamic part of any region. They combine perceptions, decision making and activity in pursuit of selected interests. Their actions have impacts, including on enterprise, societal and regional development. They stand in contrast to the markedly more limited decision maker and the determinable system. Their potential contribution to understanding transition and regional development appears little recognised.*

*Of particular interest is the active agent who is sensitive to institutions and other contextual aspects. A socio-environmental rational agent (SERA) is presented. Its use provides a promising and more adequate way to advance understanding of regional transition issues. It is a more adequate formulation than the conventional self-interested rationalist (SIR). This is demonstrated conceptually and through a European case application.*

*Institutions are recognised as a key part of a transition economy or society. Their explicit incorporation allows specific framing of key aspects of transition. Determinable solutions are not expected. Rather heuristics, simulations and specific methods as explored in this paper enable regional possibilities to be more clearly grasped.*

**Keywords:** agents, transition, simulation, institutions, regional development

Active agents deliberating on their own interests, those of identified principals and those of the nominated society as represented in institutions can construct a transition. Agent commitments reflect some resolution(s) of perceptions of interests, and can provide a dynamic for regional development.

Such is the position explored in this paper which is in four main parts:

1. A line of approach
2. Regions as intermixes
3. Agents and their influences
4. Ways forward?

In all, it will be seen that enhanced formulations of agents can assist in analyses of transition and regional development. One of the frontiers in Regional Science identified by Markusen (2002) is explored. While this paper remains developmental, there does appear to be considerable potential in the approach presented. Comments are most welcome.

## 1 A line of approach

In examining issues of regional development, particularly in times of transition, there are many potential starting points. We begin with two general questions:

1. As the broad imperatives in an economy change, what things change, how and with what implications? For convenience, this can be termed *the changed "reality"* question.
2. How might relevant aspects be more adequately chosen, formulated, described and measured?" This can be termed the *adequate analysis* question.

In answer to the first question, different observers may offer distinctive answers which incorporate a chosen view of development. Diversity of views is likely within and between regions. Such diversity will need to be somehow accommodated and harnessed for effective development to occur.

The "realities" of change will be focal, essentially as they are variously perceived (as indicated by the "quotes"). These can be cast in three parts:

- a) **Items** of change, those "things" regarded as changing. These are expressible in terms of behaviours, structures, organisational arrangements, institutions or some other explicit characterisation and (desirably) observable variation.
- b) **Means** of change, the "interactive how" be it external or internal to the observed items. External influences may be termed "drivers of change" when incoming (towards the item). Internal influences may be termed "adjustments to change" or "management of change". Mediation of influences, where needed, may be allowed through an active agent or other resolution device.
- c) **Impacts** of change, be they on the identified items, means or other aspects. Impacts typically lead to "revisions" in "reality" with (hopefully) "improved" items, means or other aspects consequent. Processes may lead to new features of the item, as when adjustments to change become institutionalised or otherwise durably embedded.

Such a casting is one amongst several possibilities but it will suffice for present purposes. Highlighted is a structured perception of "reality". Recognised is "a choice of realities".

Given such a casting, many choices are possible as “details are added”. For example, a popular line of choice may be to identify “the regional economy” as the item, procedural issues via legislation or regional initiatives as the means and “better” economy, system or business as the impacts. Alternate focal items could be used, including society, sector, location or urban structure, at each of the three parts.

Whatever the specifics, a formulation embodies sequence and selection. Some order of interaction is supposed. Some aspects are of particular interest. Judgements guide perceptions, specifically as to what to include and how to identify (and link) chosen aspects of reality.

Many castings of actuality and consequent formulations of “Reality” can be, and have been, so constructed. There are indeed many potential answers to the first question. There are also many (and variously preferred) answers to the second question. Indeed preferences may be such that habitual answers to the second question may bias formulation choices for the first. Thus the analyst or the regional politician, each with a preferred approach, may habitually rather than appropriately analyse.

To help avoid such issues, and also as a means of triangulation, a third question can be used:

3. What is it that we are trying to achieve? This is termed the question of *intent*. Guiding choices will be some envisaged purpose. Reflecting on that purpose helps keep check on the relevance of related activities (including in castings and analysis).

Transition is then essentially a design question. Outcomes are to be somehow achieved. They may be considered ideally and/or practically.

- Ideal outcomes involve *seeking* “what might be” abstractly with little reference to existing situations and sequences.
- Practical outcomes *build from* “what is” with sequencing and situations considered explicitly.

Transition itself involves *building from* and *seeking*.

A key issue is the perceived feasibility of the path between: (how) can “goals” be reached from where “we are”? Those transiting, be they individuals, organisations, groups, nations or whatever objectification, are in some ways building from where they are and so moving closer to what they are seeking *via* some activity sequences or pathways. Encapsulated is a linked, dynamic model which can incorporate active entities in some achievement contexts.

It is similar with analysis, wherein the analyst builds from some foundations seeking insights or “an answer” *via* a chosen set of analytic activities. Analysis is then itself seen as a transition, one from current to greater insight *via* chosen considerations of parts.

Intent (in question 3 or Q3) then conditions both approach (Q1) and analysis (Q2). Consolidating this three-part schema:

*In order to* answer Q3, *we need to* answer Q1 *aided by* answer Q2.

Such a phrasing can serve as a heuristic, a means of furthering investigation of the chosen situation, be it by an involved agent or external party.

Applications can help put things into a sharper perspective. The broad phrasing can be applied in various ways as these three examples illustrate:

**A. put generally and simply,**

*In order to achieve X, we need to review changes aided by relevant analysis*  
- the what (or who), how and impacts of change being focal.

**B. put as a truism or two,**

*In order to understand transition, we need to review changes aided by relevant analysis;*

*In order to understand transition, we need to review relevant changes aided by informed analysis.*

The emphasis and interpretation is likely to be varying in each. Such truisms while apparently trivial form the basis of classification. How “the trivial” is interpreted matters in classifying.

**C. put as involving active parties, as in *an agent-oriented schema*,**

*In order to understand business choices (and their effects)\_\_,  
we need to contextually analyse agent behaviours\_\_  
aided by more adequate models of agents (and their thinking) \_\_.*

The last is of particular interest. Agents are one useful key to better understanding not just the choices of businesses or other entities, including from government, but also the ways such choices help create transitions and development.

Some particular key propositions underlie this position and the applications:

- Relevance matters, as do the details of conceptualisations and formulations and the specifics of analysis. Positivism is not then embraced; relevance and the importance of specifics are. These are particularly important if a dynamic viewpoint is to be developed.
- Related is a concern with perceptions. Pathways reflecting variously open and precluded choices are thus conditioned. Imperfections in institutions and information are both contributing factors.
- More particularly for the last application, currently popular rational models of agency are seen as inadequate, particularly for transition but also more generally. Essentially they are seen as inadequately formulated. A specific concern is with the lack of appreciation of context and contingencies. Current approaches to rationality are then inappropriately limited and may indeed misdirect analysts and analysis.

Particularly influential in the development of such a position are the ideas of de Bono (particularly 1986; 1990; 1994) as well as Bohm (1985; 1994) and Caldwell (1994).

## **2 Regions as intermixes**

Regions can be described in many ways, including terms of their mix of principals, agents and institutions. Terming the region “an intermix” emphasises interactivity in the mix. The region could be, for example, an area under the influence of particular institutions or a particular mix of principal interests may hold some sway. Significant interdependencies and influences within such regions need recognition, appreciation and incorporation into analysis.

## **2.1 *Dealing with interdependencies.***

Analysis of an interdependent mix presents particular challenges – and opportunities. A few brief comments suffice for present purposes.

- An economy as an evolving network of linked individuals or parties (Kirman 1997 e.g.) shows behaviour markedly different to that based upon isolables, especially if agency exists.
- Business process (and other) networks differ significantly to markets and hierarchies in operation and impact (Turok 2004 e.g.).
- Institutions are important but neglected (Hodgson 2003; Kotabe and Mudambi 2003; Ozawa 2003; Parkhe 2003; Quack and Djelic 2003; Fornahl and Brenner 2003.; Social Science Research Council SSRC 2004).
- Government *and* business institutions (defined in the tradition after North 1981) are under challenge (Reinicke 1998; Peters, Hart and Bovens 2001; Mudambi, Navarra and Sobbrío 2003; Teegen 2003, e.g.). Various private and community “institutions” now also claim sway in policy debates and decision making.

Challenges are heightened when “significant transitions” are underway. Transitions may be of various sorts and are not just when “moving from communism to capitalism” or “underdeveloped to developed”. For example, public institutions are themselves now transiting with many now corporatised expected to move beyond traditional service roles (Edwards and Langford 2002 e.g.). Public-private partnerships are but one area of interdependent economic activity (McGovern 2004a).

Institutions and policy makers generally face challenges for which they are often ill-equipped. Available intellectual tools are markedly limited. Criticism is mounting for a supposed failure to deliver to communities and stakeholders. Despite much effort, development, competitiveness and sustainability lag. Trade and other agreements, particularly where expectations have not been met, compound matters (McGovern 2004b; McGovern and Pace 2004). Regions impacted by changes, sometimes little expected or appreciated, undergo varied and intermixed transitions.

## **2.2 *Transition, the Network Division of Factors, and Development***

Ongoing rearrangement of business activities is one aspect of transition. While this is most apparent in former communist countries, globalisation challenges all regimes. Particular (largely business) interests are fashioning networks to deliver on their interests with varied regard to institutional and societal interests.

With a shifting network division of not just labour but also other factors, impacts are many and variously distributed. Some impacts are accepted with growing unease. Enterprise efficiency and productivity improvements through core product specialisation see enterprises increasingly outsourcing non-core production tasks (often with a minimum-cost-for-standard-product orientation). Limited development may attend such strategies and activities. The effects on regions can be expected to be uneven, and may be held that way by network developments.

Closer business relationships emerge, strengthened not only by business process technologies that technologically link various management tasks and functions but also by considerations of capital use and market competitiveness. Business partnership models increasingly resemble relations between business units of the same enterprise rather than distinct enterprises. Network forms contest what has previously been market based. While aspects of the management and organisational implications of these structural changes have been and examined, the economic and industrial organisational implications are less well understood. Effects on profitability are unclear, let alone on competitiveness or sustainability.

Significant economic implications follow the redistributed impacts. Feasible pathways open or close, with clear development implications for enterprises, markets, networks and nations. Trade and exchange in a network economy are seen as more routine and repeatable with investments variously made assuming ongoing interactions of some sorts. The nature of appropriate governance changes (Williamson 1996, Banerjee 2004). As specialisation is accompanied by interdependence, a central issue is how network relationships constrain or advance particular interests and, indeed, national or regional development in an interdependent world.

For Marshall a central consideration was of the *agents* of production – land, labour, capital and organisation. Note his usage:

*“By Land is meant the material and the forces which Nature gives freely for man’s aid, in land and water, in air and light and heat. By Labour is meant the economic work of man, whether with the hand or the head. By Capital is meant all stored-up provision for the production of material goods... the main stock of wealth regarded as an agent of production rather than as a direct source of gratification.”* (1976 reprint of 1920 8th ed, p115)

While in these times of ecological stress and sustainability concerns we may no longer consider Nature as giving freely, the position remains apt – and in marked contrast to the commodified factors of production prevalent in much analysis today.

It is Marshall’s further comment *“that it seems best sometimes to reckon Organization apart as a distinct agent of production”* (*ibid*) that points to a distinctive role for institutions and like organised or organising entities. Reflecting Robertson (1928) and Coase (1937), these are “islands of conscious power”, be they private or public. Of what are such islands, of what are they conscious and how do they exercise their power? Considerations of agency in Section 3 can provide one set of answers.

### **2.3 Context and relationships matter – including to competitiveness, and impacts**

In a time of flux *ceteris paribus* assumptions may be markedly deficient (and indeed are largely counter intuitive). Nor is a static functional form particularly informative. Reflecting several “Smith” ‘s (1986; 1991; 1994; 1995; 1998) amongst many others, impacts and their distribution as well as the quality of interaction and commodity quantities matter. *Articulating contexts and relationships* becomes central as parties seek to variously (re-)position themselves *with impact*.

Advantage may be seen and sought in distinctive ways, including *via*:

- regional or national factor endowments (comparative advantage for 2, 3 and n parties);
- self and group organisation essentially externally (competitive advantage) nationally (Porter 1990) or bi-nationally (Rugman and D'Cruz 1993);
- inter-organisationally (collaborative advantage Huxham 1996 and networks);  
or
- intra-organisationally (in such things as the classical firm focus on factors).

These are perceived as foundations of competitiveness.

Organisations can adaptively choose and promote (networks of) alliances through which flows are organised or other means to secure and sustain advantage. Non-price and price related product and agent aspects are involved. Agency issues are particularly important with specialisation and attendant interdependence. Not only is the nature of the commitment of one party to another important. Commitments variously advance interests in a situation of joint production, with attendant stress and strains. This need apply not only to a firm. With global specialisation and spanning networks, national development can be seen as a joint product.

These occur within a broader environment. Following Hill and McGovern (2005), context-specific attributes, including such things as culture

*can be combined with the notion of agglomeration (the locational advantages of proximity to other producers) to begin to explain “the new economic geography” (see Fujita and Krugman 2004)... [which] seeks to explain the spatial distribution of economic activity in terms of the factors that bring activities together in space (centripetal forces), and those that push them apart (centrifugal forces).*

These can be perceived as the nodes of networks. Locations of economic activity are variably representable, including as points in space (demarcated somehow one from another), hubs of networks (where flows converge, and diverge) and locales of production (with directed activities and transformations).

***Table 1. Forces affecting geographical concentration and dispersion.***

<i>Centripetal forces</i>	<i>Centrifugal forces</i>
Linkages	Immobile factors
Thick Markets	Land rent/commuting
Knowledge spillovers & other pure external economies	Congestion & other pure diseconomies

Source: Fujita and Krugman 2004, as cited in Hill and McGovern 2005).

Note the diverse nature of the forces (and their sources) as well as the implicit type of region assumed in each, and overall. How are such things to be reconciled, or how are the different forces to be resolved?



### 3 Agents and their influences

Agents are essentially parties acting in the interests of an other. Though a variety of formulations are possible, a single Agency view (incorporating a particular rationality) holds much sway, despite a lack of empirical support (Temel 2005). An alternative formulation of these active entities is presented and applied to an EU case where agents did not produce expected outcomes in an apparently straightforward transition situation. This socio-environmental rational agent (SERA) with its consideration of institutional influence shows promise in advancing understanding of transition experiences.

#### 3.1 A case of agents and unexpected transitions?

In the 1970s the EU obtained commitment from member nations to harmonise financial accounting standards. Two Directives were subsequently promulgated by the Commission. Given apparent strong commitments by signatories, a transition to common standards could be expected to be straightforward, particularly in the relatively stable conditions of the EEC then. Thirty years on the process is still incomplete, with some objectives now unlikely to ever be attained.

As Brackney and Witmer (2005) comment:

*As a result of the directives' permissiveness and the varying financial reporting environments within the EU, the member states' financial reporting standards and practices are very diverse. In countries with a stronger equity culture (e.g., Ireland and the United Kingdom), financial reporting has tended to be more important and more transparent. In contrast, financial reporting has tended to be less important and less transparent in countries where debt financing dominates (e.g., France and Germany)... It is not surprising that Fritz Bolkestein, then internal market commissioner of the EC, described the state of variation in accounting standards as a European "Tower of Babel."*

What was overlooked, and why did the nations of Western Europe not undertake their agreed transitions?

Agency issues seem to provide key parts of an answer. The choices of national agents influenced outcomes in unexpected ways. How this might play out after the EU 2005 “mass conversion” with 9000 companies now using international standards (IFSRs) remains to be seen. Interestingly, the “adoption process thus far has demonstrated the EU’s “willingness to assert its influence in protecting its interests” (*op cit* p 27), which is a clear agency issue. Also, despite the optimism of Haller (2002), he identifies a range of challenges and concludes

*“It depends very much on how the above-mentioned challenges will be met in the near future by the responsible institutions as to whether comparability of financial reporting within Europe (and also globally) will be achieved on a broader scale.” (p 183, emphasis added).*

Guidance issues identified by Schipper (2005) compound problems.

#### 3.2 Base agent formulations

The degree of diversity continuing to persist in EU financial accounting does not reinforce or support the notion that member nations are acting in accordance with a simple mode of self-interested rationalism (SIR), as incorporated into existing Agency theory as developed in the tradition from Jensen and Meckling (1976). Diversity was not seen as being in the best interests of member nations (the agents) or the EU citizens (the nominal principals). Yet agreed transitions were not made in a

convergent manner. Diversity persists. Why would nations so interpret stipulated standards and adopt alternatives that increased diversity in EU financial accounting, these being argued to be contrary to the interests and utility of agents and principals?

An examination of such things as ‘true and fair view’ and the definition of a ‘group’ (Temel 2005) has demonstrated that **institutional<sup>1</sup> influence may be instrumental in member nation behaviour**. This has been framed in terms of socio-environmental rationalism, wherein expected behaviour of respective member nations (the agents) would reflect institutional settings. For a socio-environmental rational agent (SERA), institutions can influence agent behaviour in the principal-agent relationship. Agents (member nations) rather than adopting and adhering to “contracted” financial accounting policies supposedly representative of their self-interest, will adopt and adhere to those policies in accordance with their institutional setting.

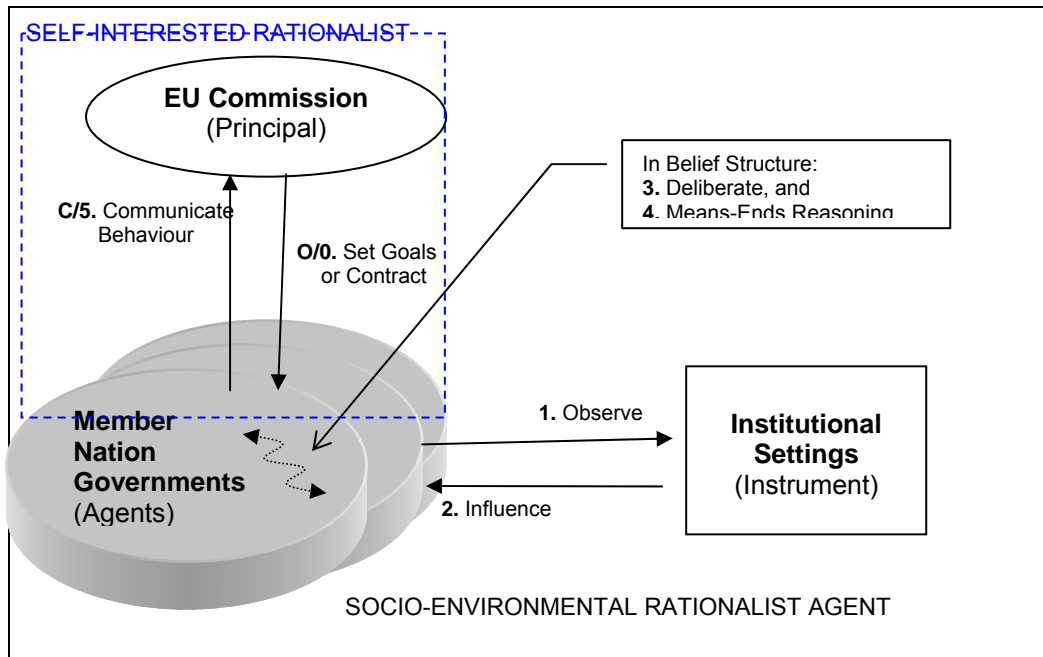
Application of both types of agent is depicted in Figure 1. The socio-environmental rationalist agent’s (SERA) behaviour sees each member nation after initiation of the collective transaction (labelled 0 in Figure 1) engage with their national institutional settings (demonstrated by the arrows labelled 1 and 2 in Figure 1) regarding the type of behaviour. This influences each respective nations belief structures (labelled 3 and 4 in Figure 1). Positioning over the wavy arrow indicates agent’s deliberation and reasoning following the influence of institutional affiliation and interaction. Final commitment towards harmonisation is conveyed (labelled 5 in Figure 1) with the process typically then completed.

For SERA, the institutional force(s) and those present within the principal-agent relationships (EU Commission and member nation relationship) act on the agents, influencing their behaviour positively or negatively towards the attainment of the principal’s goal(s) through their belief structure. In contrast, SIR behaviour (shown as the dotted section in the top left of the Figure) involves only the links O and C, much or most interaction being in the initial framing of a contract. Note that there could be multiple passes through these links. This is particularly so with SERA, while SIR would typically be more a simple “stimulus-response” interaction.

At one level the SERA formulation would seem obvious: institutions could be expected to influence agents and transitions. Yet the dominant Agency position is a SIR formulation with institutions as broadly contextual (if considered at all). Transition is essentially assumed. While such an assumption may be tenable in some (we would argue very limited) circumstances, it remains an assumption. Its adequacy needs evaluation. In some well-ordered and repeatable situations it may be adequate but as a general position it appears untenable.

The broader issue is whether two parties or three are adequate in an agency formulation. If relevant considerations can be appropriately incorporated into just two parties then the simpler model might suffice. However, given that principals incorporate a set of private interests to which the agent is to be attuned while having regard to its self-interest, incorporation of institutional and wider societal considerations, and action on these, would appear largely fortuitous, incidental or accidental. It appears better to begin with a three party model, and simplify if appropriate, rather than assume a two party model as universal.

**Figure 1 - Framing EU-Nation Interaction**



<p><b>A Self interested rationalist, SIR (conventional)</b></p> <p>O Goals or contract set</p> <p><i>(suitable management by agent assumed)</i></p> <p>C Close contract (typically with Report)</p>	<p><b>A Socio-Environmental Rational Agent, SERA</b></p> <p>0 Goals or contract set</p> <p>1 Agent observes institutions</p> <p>2 Perception of institutional influences</p> <p>3 Deliberation</p> <p>4 Means ends reasoning</p> <p>5 Communicate behaviour (as goal commitment)</p> <p>C Close contract (if finalisation agreed)</p>
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*Typically utility maximisation pre-built into contract terms given ex ante information and a priori reasoning*

*Perception and deliberation largely in situ. Base sequence may flexibly extend to include iterative processes with recursion.*

Source: Temel-Candemir 2005

### 3.3 Simulation Procedure

An attraction of two party models is that they are relatively easily determinable. Three party models introduce not just greater complexity but also contingency. How A acts in regard to B depends somewhat on perceptions of C. So in SERA, how (much) the agent commits to the principal depends somewhat on the institutional setting. To explore such things, simulation through the use of computational software is conducted. The chosen software package for this research is NetLogo.<sup>ii</sup>

In the simulation, agents are presented with variations in their institutional environment:

- *InstnPow*, institutional power possessed by institutions, and
- *InstnUncern*, uncertainty/variability in institutional influence.

These affect their level of commitment towards achieving the principal's goal.

The workings of the simulation can be summarised by a relationship:

$$C \sim R(P) \text{ given } D\# \quad \dots 1)$$

That is, the communication of final commitment, C, is dependent upon an agent's reactions R to perceptions P (informed by their institutional environment) given their deliberations D.

It is the communication of final commitment, C, that is to be simulated with varied settings of institutional power and uncertainty/variability. That is,

$$S (InstnPow, InstnUncern) \rightarrow C \quad \dots 2)$$

where S is the SERA or SIR simulation, and

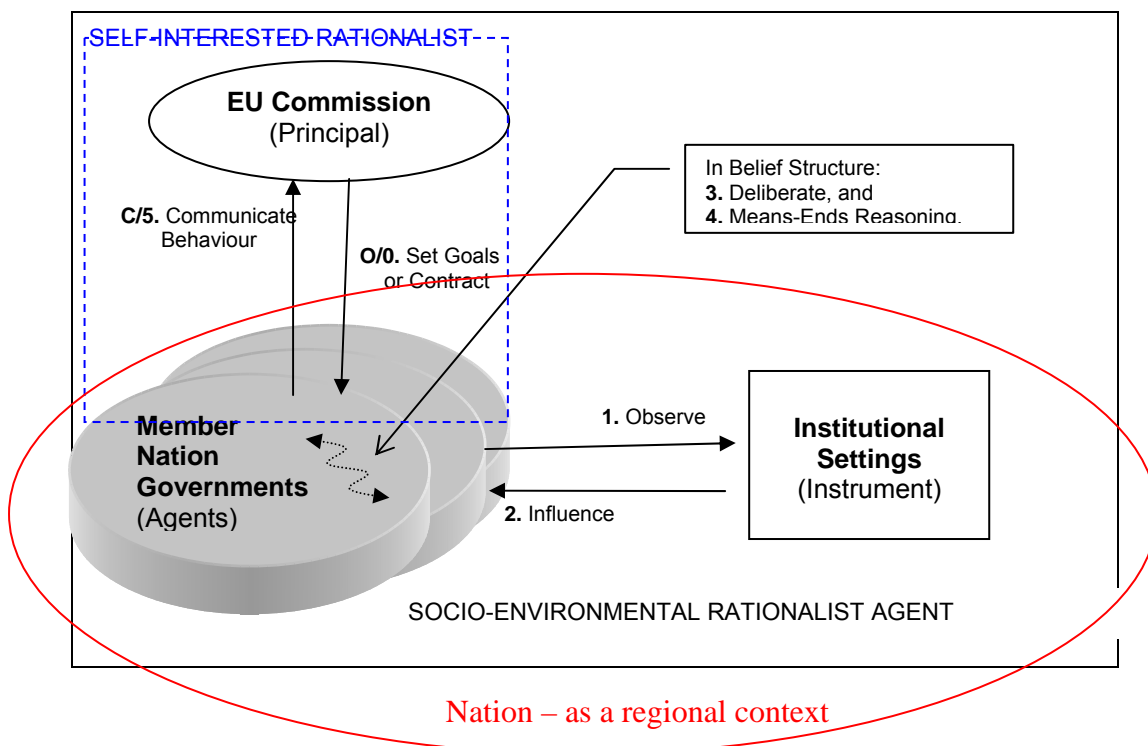
→ indicates the yield of the simulation.

Simulations of SERA for the four agent groups in EU9 and EU15 settings as well as SIR yielded distinctive and statistically significantly different commitment values (McGovern and Temel 2005; Temel 2005). The contexts made a difference. As would be expected, SIR commitment values were essentially independent of institution (or agent group) settings.

### 3.4 Agents in a regional setting

Regional boundaries can be set to include one or more of principal, agent and institution. In Figure 2, agent and institution are collocated within a region while the principal is shown as extra-regional. Implicit in such a representation is that “the region matters” somehow.

**Figure 2 – Adding a regional boundary**



If the region is no more than an institutional influence then its inclusion is redundant. However if the region is a rich environment hosting a range of intermixed influences (such as those discussed in Section 2) which may variously reinforce (or diminish) institutional influence then the region adds a distinctive environment, one not shared in this example by the principal. Given that the principal is itself a particular embodiment of interests, issues of distinct interests can arise. They can be explicitly dealt with in a regionalised SERA formulation but not in a SIR one.

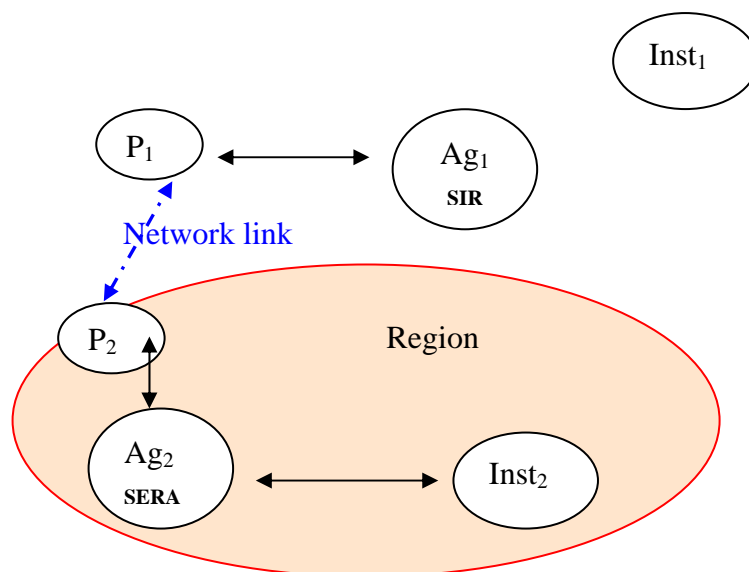
### 3.5 Generalising the “principal agent institution in region” problem

Recognition of three distinctive parties and a differentiated regional environment provides the basis for a range of configurations and a more general approach. The types of parties are principal (largely private interests), agent (active and deliberative) and institution (representing some public interests). These may variously share a region and a range of attendant influences.

One illustrative configuration, presented in Figure 3, allows some of the issues that may arise when such groupings are networked to be discerned. Two groups are principal, agent and institution are present with the second including SERA and an effective regional intermix. As well as the linkages shown for the second group there will be linkages achieved though regional interplays (and perhaps as part of the regional environment or culture).

The second group then exists in a fairly rich environment with a more broadly circumspect agent. The first group is far less connected and the agent is principal (and self) focussed. Their institutions are peripheral. If a network link is established between Principals 1 and 2 (dotted line) then  $P_2$  is in a very differently structured relationship with each of the agents. Agents could be expected to respond in different ways to the same signal from  $P_2$ .  $Inst_2$  may have more influence than  $Inst_1$ , and so on.

**Figure 3. Configuring a “principal agent institution in region” problem**



## 4 Ways forward?

Regional development and transition present a particular challenge today, including to our ways of thinking.

*“Western thinking is failing because it was not designed to deal with change... instead of using the boxes and judgements of traditional thinking, we **design forward** from a field of parallel possibilities.” (De Bono 1994, pp vii-viii, emphasis added)*

The position in this paper is that transition requires a focus on change. Development is consequent from some such changes. The heuristic and schema introduced explicitly address items, means and impacts of change. A reflective agent, here formulated as SERA, can explicitly address such things, as is demonstrated in both its design and the simulation results. The varied commitment of SERA agents to principals in different European contexts was demonstrated.

Such agents can “design forward” and so construct a transition. The traditional SIR approach cannot since “agents” are there essentially in a hierarchical, stimulus-response state. Types of agent, as actually present and as assumed, warrant attention.

A re-evaluation of thinking, models and interpretations is needed. Rather than seek some presumed and often singular truth, or expect some ideal outcome with (perhaps automatic) convergence towards it, as is often the case in discussions of accounting standards, it is argued that a variety of possibilities exist and that diverse realities can be expected. “Which realities do particular transitions and regional developments reflect?” is a core question.

In this paper we have demonstrated:

- A framing of the analysis of transition in terms of the focal items, processes and impacts of change. This simple framework can accommodate a variety of transition analyses. It expresses a simple but useful heuristic. It also explicitly considers possibilities, and of how realities might be formed.
- Agents embody decision making and actions with impacts. Paradigms using agents can have considerable explanatory power. They are potentially flexibly usable in implementations.
- Despite a clear Directive in what would initially seem a fairly straightforward area, changes to the accounting standards of the European Union involved a variety of experiences with mixed impacts on national systems and European commerce. Agents did not respond uniformly or as self-interested rationalism, SIR, would predict.
- Alternative formulations of agents with SERA, the socio-environmental rational agent, showed significantly different levels of commitment to change in different environments. Commitment varied with varying institutional influences, specifically perceived institutional power and uncertainty.
- A general “principal agent institution in region” problem was suggested. Configurations and pathways matter as will the types of agents incorporated.

Such demonstrations are consistent with both the underlying position of the paper and with observed European transitions. Conceptual, analytical and empirical complementarity is present. While much of the work is exploratory, results to date indicate that the approach, ideas and methods are both rich and robust.

There are many, potentially complementary insights into transition issues. How might the ideas in this paper provide something of a stimulus, and perhaps a bridge? Somewhat speculatively, we offer these thoughts for wider discussion.

Taxonomically, the framing presented may allow some greater ordering of studies of transition. By identifying the focal item and how it is further conceptualised and analysed, classification of transition studies could be advanced. Such steps could assist in the development of comparative works.

Criticisms of transition experiences are several. In examining these, IMF spokesman Dawson (2003) highlights the central role of appropriate incentives in decision making for successful transition experiences.

*The critics are also right that too much emphasis was placed in the initial stages of transition on who owned the assets, that is, whether it was the state or the private sector. What turned out to be much more important was whether the owners, state or private, had incentives to restructure.*

What was their commitment to change, how was it influenced and informed, and with which realities did they relate?

Principals act with and through agents, particularly in large organisations. Indeed it could be hypothesised that part of the explanation of the frequently successful privatisation experiences of small enterprises and the more unsuccessful experiences of the large, lies in the varied nature of the principal agent relationship.

An interesting aspect of any move from command to market economy is the changing nature and spread of decision making. Politically democratic arrangements distribute decision making as do devolved or decentralised sectors and organisations. Part of the challenge in transition then is skilling not just decision makers but also those who would analyse them. SIR agents may suit a command situation but they are a poor analytical proxy in a market economy.

Agents have been modelled particularly as relating to institutions, these being frequently recognised as pivotal to transition performance. In an extension of the present work alternative decision making agents could be used within institutions. Classically, institutional representative have been assumed to be SIR oriented but allowing them to be more SERA styled would not only allow a wider consideration of possibilities (including from the relatively benign to the corrupt) but also allow mutual agent activities and the preclusion of alternative principals.

Issues and underlying tensions associated with alternative principals (and regimes) as identified by Gallhofer and Haslam (2005) amongst others might then be considered, explicitly since SERA can recognise choices and “emancipatory potentiality” (including as part of designing forward) while SIR cannot. Such thoughts reflect some of the potentials seen in the approaches sketched in this paper. As with transitions, the possibilities are many.

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<sup>i</sup> The relevance of institutions in understanding accounting policy choices and adoption is supported in an earlier study by Temel (2000) which demonstrates that societal institutions were the social channels through which cultural values were transmitted to the accounting system and hence, the driving force for the diverse adoption of EU Directives (Temel 2000).

<sup>ii</sup> NetLogo is an agent-based parallel modelling and simulation environment produced by the Centre for Connected Learning and Computer-based modelling at Northwestern University (Evans, Heuvelink and Nettle, 2003: 1). It is a programmable modelling environment for simulating complex natural and social phenomena developing or emerging over time (Johnson, 2001: 165).