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From Mercantilism to Innovation Systems – The Evolution of Business Environment Institutions

Zofia Gródek-Szostak[1], Henryk Gurgul[2] and Nina Dubiel[3]

[1]Poland Krakow University of Economics,
Poland

[2]AGH University of Kraków,
Poland

[3]Akademia Nauk Stosowanych w Bielsku-Białej, Akademia Górnośląska, Katowice,
Poland

***Abstract*— The contemporary economy relies not only on market mechanisms and business activities but also on a complex system of institutions that support business development. Business environment institutions (BEIs), such as business incubators, technology parks, technology transfer centers, and venture capital funds, play an increasingly important role in shaping the conditions for innovation, competitiveness, and sustainable economic growth. Their presence and functions are the result of a long-term evolution of economic thought, which gradually recognized the importance of institutions as elements enhancing market efficiency and entrepreneurship.**

The aim of this article is to present how business environment institutions have been and are perceived and interpreted within various strands of economic theory – from classical liberal concepts, through the new institutional economics, to contemporary approaches based on the theory of entrepreneurial ecosystems and sustainable development. This analysis not only helps to understand the origins and functions of BEIs but also highlights their growing importance in economic policy and regional development.

The article serves as an introduction to further discussion and research on the increasing significance of innovation systems in the development and maturity of modern enterprises within the business environment.

Keywords— Business Environment Institutions (BEIs), Management, Economics, Economy, Innovation

I. INTRODUCTION

In the VUCA world (Volatility, Uncertainty, Complexity, Ambiguity), the organizational environment exerts an increasingly strong influence on organizations. Therefore, identifying those environmental elements that determine the achievement of intended goals is crucial (Budzik & Zacharowska, 2016). The modern economy is based not only on the activities of enterprises but also on a broad support system that enables their development, innovation, and competitiveness. In this context, business environment institutions (BEIs) – entities that support entrepreneurship, particularly in the micro, small, and medium-sized enterprise (SME) sector – gain special significance. These include, among others, science and technology parks, business incubators, regional development agencies, chambers of commerce, and clusters. Their role has evolved alongside economic and social transformations. It is worth noting that in classical works, the term "business environment institutions" in its current sense does not appear; however, researchers have analyzed the role of the state, trading companies, and guilds, which performed similar functions (Landes, 1998; Chang, 2011; Acs et al., 2008).

The concept of business environment institutions is highly inclusive. It encompasses almost all types of public and private entities that are directly or indirectly related to the establishment and operation of business activity. Their operations focus on providing services to entrepreneurs, particularly micro, small, and medium-sized ones (Gródek-Szostak, 2017a; 2017b). BEIs offer services to eligible entrepreneurs, which, thanks to public funding, can be provided under preferential conditions, and sometimes even free of charge (Nesterak et al., 2016).

The development of business environment institutions is

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closely linked to changes in economic thought, which have shaped the perception of the role of the state, the market, and organizations supporting economic activity (North, 1990). In different eras and theoretical approaches, these institutions have served various functions – from tools of protectionist policy to components of innovation systems and network cooperation. The evolution of BEIs in economic theories reflects the changing approach to the role of the state, the market, and organizations supporting entrepreneurship (Landreth & Colander, 1998).

II. Research Methodology

The research is conceptual-theoretical and historical-analytical in nature. Its aim is to identify and analyze the evolution of the role of business environment institutions (BEIs) within selected economic theories, ranging from the era of mercantilism to contemporary concepts of innovation systems. The methodological approach includes: a literature review covering national and international academic publications on BEIs, economic theories, and economic policy; comparative analysis, i.e., juxtaposing the functions and roles of BEIs across various theoretical frameworks (e.g., mercantilism, classical economics, Keynesianism, institutional economics, innovation systems); and a diachronic approach aimed at identifying changes in the perception of BEIs over time, in the context of shifting economic paradigms.

III. Historical and Theoretical Perspective on Business Environment Institutions

During the era of mercantilism (16th–18th centuries), the prevailing belief was that the state should actively support economic development by establishing institutions that promoted exports, the growth of manufacturing, and trade infrastructure. Although modern business environment institutions (BEIs) did not yet exist, activities such as subsidizing industry or establishing chambers of commerce served as historical precursors to today's BEIs. Smith (1776) was the first to use the term "mercantile system" to criticize its protectionist and interventionist principles. He described how the state, through tariffs, monopolies, and subsidies, privileged specific social groups (mainly merchants) at the expense of the broader economy.

Heckscher (1931), analyzing mercantilism not only as an economic doctrine but also as a political and social system, illustrated how the state sought to increase its power through control over trade and production. The state was the key actor, creating and utilizing institutions (monopolistic companies, tariffs, subsidies) to achieve its objectives. Institutions that today would be classified as part of the business environment were, in the mercantilist era, essentially tools for strengthening state authority rather than freely supporting entrepreneurship (Wilson, 1958; Magnusson, 1994).

National wealth was equated with the amount of precious metals possessed, and international trade was viewed as a zero-sum game. BEIs did not serve the broad entrepreneurial support function they do today (Israel, 1989). Instead, they were instruments of state policy, designed to maximize national profits at the expense of others. The British East India Company (EIC) and the Dutch East India Company (VOC) are prime examples. Neither EIC nor VOC emerged as free-market enterprises; rather, they were organizations established by royal or state privilege.

The British East India Company was established in 1600 by Royal Charter granted by Queen Elizabeth I. This charter gave the company exclusive rights (a monopoly) to trade with the East Indies (Chaudhuri, 1978), meaning that no other British entity could legally engage in commerce in that region. The Dutch East India Company (VOC) was founded in 1602, receiving a 21-year monopoly on trade in Asia from the States General of the Netherlands (Furber, 1976). The VOC was a pioneer and is often recognized as the world's first joint-stock company, raising capital from multiple investors to finance costly and risky expeditions.

In both cases, state privilege was the foundation of their existence and operations. It provided protection from domestic competition and enabled them to compete with colonial powers such as Portugal and Spain (O'Brien, 1982). The activities of these companies quickly extended beyond mere trade. Thanks to their privileges, they became hybrid entities combining commercial, political, and military functions. This unique combination was essential for achieving mercantilist objectives.

The British and Dutch East India Companies were fundamental institutions of the mercantilist era. Their existence and operations, based on privilege and monopoly, enabled the realization of state economic policy goals. Although far removed from modern business environment institutions (BEIs), their role demonstrates that institutions supporting business have always been closely tied to the prevailing economic system and the strategic objectives of the state.

Following the mercantilist period, characterized by strong state intervention in the economy, the 18th and 19th centuries brought a fundamental shift in economic thought. Classical liberal economics emerged, reversing previous priorities by emphasizing individual freedom, free markets, and a minimal role for the state. Thinkers of this era, including Adam Smith (1776), David Ricardo (1817), and John Stuart Mill (1848), laid the foundations of modern capitalism, and their works significantly influenced the development of business environment institutions (BEIs).

In contrast to mercantilism, where institutions were created and controlled by the state, the role and nature of BEIs underwent a profound transformation during the classical liberal era. Classical economists advocated for minimizing economic regulations such as tariffs, import quotas, and subsidies, believing that the market itself was the best regulator. The expansion of trade and industry required new sources of financing. Private banks became key institutions, providing credit, facilitating payments, and supporting entrepreneurship.

Although classical liberals supported a limited role for the state, they recognized the importance of education as a means to improve workforce qualifications and enable individuals to pursue success freely. The growing influence of merchants and industrialists led to the formation of voluntary associations and chambers of commerce, which, unlike guilds, lacked legal authority to regulate markets. Instead, they served representative and promotional functions.

Classical liberal economics revolutionized the perception of the relationship between the state and the economy. Rather than active intervention and the creation of privileged monopolies, it promoted a neutral, stable, and predictable legal environment in which the free market became the primary regulator. BEIs, in today's understanding, were seen during the classical liberal era primarily as enabling structures rather than regulatory ones. The state's role was to establish the "rules of the game" (laws, courts), while entrepreneurs operated within those rules, guided by self-interest.

This led to rapid industrial and commercial development, but over time, the negative consequences of the system—such as social inequality and economic cycles—became apparent, eventually prompting a revision of these views and the emergence of new economic doctrines.

In response to the Great Depression of the 1930s, the need for an active role of the state in the economy emerged (Keynes, 1936). Within the Keynesian framework, business environment institutions (BEIs) began to be viewed as tools for supporting the development of the private sector, counteracting unemployment, and stimulating investment. Development agencies, support funds, and training institutions were established. Keynesianism revolutionized the perception of the state's function and the role of BEIs, shifting from the minimalist liberal philosophy to a welfare and interventionist state model aimed at correcting market failures. BEIs ceased to be merely neutral "rules of the game" and became active instruments of economic policy implementation. This shift in economic thought and political practice laid the foundation for the post-war mixed economy, which combined elements of the free market with state intervention. In the Keynesian model, the state was expected to stimulate investment during periods of economic slowdown (Blaug, 1962).

In the era of neoliberalism, the nature of BEIs underwent another, this time radical, transformation. Instead of building a welfare state, the focus shifted to restructuring the state to create a "market-oriented state." Since the 1970s, institutional theories (North, 1990) have gained increasing importance, emphasizing that economic development depends not only on resources but also on the quality of institutions. BEIs began to be seen as part of the institutional infrastructure that reduces uncertainty, fosters trust, and facilitates coordination of economic activities.

From the perspective of New Institutional Economics (NIE), BEIs are crucial for lowering transaction costs and creating a stable environment for business activity. Informal rules such as trust, reputation, and business ethics can significantly reduce transaction costs by minimizing the need for formal contracts and constant monitoring. In high-trust societies, economic interactions are more fluid and efficient. Chambers of commerce and industry associations serve as informal institutions that establish industry standards, promote ethical codes, and facilitate information exchange among entrepreneurs, thereby fostering business development.

New Institutional Economics represents a paradigmatic departure from earlier theories, emphasizing that the mere presence of a free market is not sufficient. It is the quality of institutions—both formal and informal—that is key to reducing transaction costs, building trust, and creating a predictable environment for business. In the NIE framework, BEIs are not merely passive background structures but active drivers of economic development, and their design and functioning are fundamental to the success of the entire economic system.

IV. Contemporary Systemic and Network-Based Approaches

Contemporary systemic and network-based approaches represent an evolution of economic thought, moving away from simplified models. Rather than analyzing enterprises in isolation, these concepts view them as components of complex ecosystems and networks. Within this framework, business environment institutions (BEIs) are seen as key nodes that connect various actors, facilitating the flow of knowledge, capital, and resources.

The systemic approach perceives the economy as a complex system composed of many interrelated elements. It is based on the principles of general systems theory, which defines a system as "a complex of elements in mutual interaction." In the context of BEIs, this means they are not isolated entities but parts of a larger, coherent structure—such as a regional innovation system. BEIs are considered crucial subsystems within broader systems. For example, in a regional innovation system, BEIs may act as bridges between researchers and entrepreneurs, facilitating technology transfer and the commercialization of research outcomes.

The network-based approach, while related to the systemic perspective, is more granular. It focuses on the relationships and connections between specific entities. In this view, BEIs are nodes within a network, and their effectiveness depends on the quality and strength of these connections. BEIs often serve as coordinators, helping businesses establish links with other actors, suppliers, research partners, or potential investors. These networks may be formal—such as the National Services System or the Enterprise Europe Network (Suder et al., 2023; Gródek-Szostak, 2016)—or informal. The network approach emphasizes that in today's economy, success often depends not only on individual strength but also on the ability to collaborate (Gródek-Szostak, 2023). Building networks enables enterprises to overcome financial and technological barriers.

Contemporary systemic and network-based approaches have radically transformed the perception of BEIs. Rather than being seen as simple tools of economic policy (as in mercantilism or Keynesianism), they are now viewed as integral, dynamic, and interconnected components of broader entrepreneurial ecosystems. Their role is no longer limited to service provision; they are essential for building and maintaining stable, efficient networks that support innovation, development, and competitiveness across the entire economy (Gródek-Szostak, Gurgul, Dubiel, 2025).

TABLE 1: COMPARISON OF SELECTED ECONOMIC THEORIES IN TERMS OF THE ROLE OF THE STATE, THE PERCEPTION OF BUSINESS ENVIRONMENT INSTITUTIONS (BEIS), AND THEIR MAIN FUNCTIONS

Economic Theory	Role of the State	Perception of BEIs	Main Functions of BEIs
Mercantilism	Strong intervention; promotes exports and controls trade	Tools for state power and economic control	Subsidizing industry, managing monopolies, supporting trade
Classical Economics	Minimal role; ensures legal framework and market freedom	Enabling structures for market activity	The market as a self-regulating mechanism – no need for institutional support
Keynesianism	Active intervention; stimulates investment and reduces unemployment	Instruments of economic policy and development	Investment support, employment, regional development, training, advisory services
Institutional Economics	Supports institutional quality to reduce transaction costs	An element of institutional infrastructure	Reduction of uncertainty, building trust, coordination of activities
Innovation Systems Theory	The state as an enabler of collaboration	Elements of the innovation ecosystem	Knowledge transfer, support for R&D, cluster development, internationalization

Source: own study

Under conditions of unpredictability, complexity, and rapid change—characteristic of VUCA (Volatility, Uncertainty, Complexity, Ambiguity) and BANI (Brittle, Anxious, Nonlinear, Incomprehensible) environments—business environment institutions (BEIs) play an adaptive and stabilizing role. They support digital transformation, the development of future-oriented competencies, organizational resilience, and the flexibility of business models. Their role is evolving toward becoming strategic partners in the process of change management.

V. CONCLUSIONS

Business environment institutions constitute a vital element of the infrastructure supporting entrepreneurship, innovation, and economic development. Their role, functions, and significance have been and continue to be interpreted differently depending on prevailing theoretical paradigms and historical context. From the era of mercantilism, where the state actively supported trade and production, through classical economics, which marginalized the role of institutions, to Keynesianism, which recognized them as tools for stabilization and development, BEIs have evolved alongside changing perspectives on the relationship between the state, the market, and entrepreneurs.

Contemporary theories—such as institutional economics, innovation systems theory, social capital theory, and network theory—emphasize the importance of BEIs as knowledge intermediaries, facilitators of cooperation, and stabilizers in conditions of uncertainty. In the context of the VUCA and BANI worlds, their role becomes increasingly strategic: they support resilience, flexibility, and adaptive capacity in enterprises. BEIs are no longer merely auxiliary structures—they are active participants in the economic ecosystem, co-creating conditions for sustainable development, innovation, and competitiveness (Galindo-Martín et al., 2020). Their relevance in both economic theory and practice is likely to continue growing, especially in the face of global challenges, digital transformation, and the rising importance of knowledge as a strategic resource.

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