Abstract

This thesis focuses on the impact of institutional quality in a particular country on various firm characteristics on a sample of developing economies from the Central and Eastern Europe and Asia. In the first part we review the existing literature on the topic and formulate our two countervailing theoretical hypotheses, both of which use the transaction costs approach and predict different strategic behavior of the firms. In the empirical part we employ seven firm characteristics as response variables to determine the prevailing institutional influence on them, using microeconomic data from the World Bank's Business Environment and Enterprise Performance Survey (BEEPS) and corresponding institutional indices from the Worldwide Governance Indicators dataset. We find that in poor institutional environments, firms often engage in strategic behavior that allows them to minimize transaction costs imposed upon them so that they merge more activities together and become generally bigger.