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**AN ASSESSMENT OF INSTITUTIONAL RESTRUCTURING IN REGIONAL
POLICY**

By

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Abstract

Regional policy arrangements are extremely complicated and there are various basic constituents for regional economic development such as accession the economic core, competitiveness in leading sector, capital and labour accumulation to be taken hold by regions. As the scope of this paper in overlapping the mentioned issue, one of them is the institutional setting which affects the growth and is rooted in. The aim, therefore, is to examine what extent institutions have an impact on regional policy and the process of formation of institutions within the regional field. As lying at the centre of the study, this academic paper puts forward the argument that institutions have long been neglected in the regional policy action. Then, it is discussed on whether institutions matter development and cause growth or not. Rather now, the attention is turned towards assessing what kind of institutions are to be created for regional development. Subsequently, new emphasis underlies the diversity of institutions and their comprehensive sight, comparison to earlier practice. Viewed from this perspective, firstly; after looking at the theoretical discussion in institutions as a major determinant of regional policy, this paper highlights an evolutionary approach by exploring intersection between institution and regional economic development. Secondly, it offers a critical assessment of regional development with reference to paradigm shift in the institutional formation. On the basis of this restructuring, the paper concludes by drawing on institutionalized regional framework.

Keywords: Institutionalization, Institutional Setting In Regions, Regional Development

Introduction: Justification and Background

Regional development strategies are derived from the combination of various factors (human capital, innovation, both hard and soft infrastructure, labor force, accumulation of capital, financial flows etc.) and in this context, one of the most and basic constituent affecting the regional growth which this paper wishes to address is the institutional settings. The principal objective of this paper is concerned with the institutional building effort and its transition in regional policy. In order to achieve this aim, firstly; past policy experiences and present trends will be examined and then, these approaches and processes as a whole in all their complexity will be discussed.

In this content, the paper is organised as follows:

- After taking an evolutionary perspective on the theoretical basis of institutions with respect to regional policy, this part will attempt to explore institutionalization within the regional development frame and reveal paradigm shift in the process of institutional formation.
- Secondly, this paper will consider how regional policy process was handled upon with regarding the institutional specify in different periods and assess the emergence of institutionalization at the local level in pursuing more efficient and sustainable development as a new adopted approach.
- Consequently, an institutional based regional development strategy will be focused attention and in what way the enforcement characteristics of institutions may be efficient in order to promote successful regional policy in local setting will state at the last part after being realized the necessity of regional specific policy, accomplished by local institutions since top-down regional projects were not efficient.

Setting the Theoretical Framework: Expectations from Institutions as a Major Determinant of Regional Policy

Defining the institution and institutionalization is considerably difficult and includes a broad definition. Most opinions express institutions as formal and informal rules, together with the consisting of the condition of their enforcement (such as efficiency, equity etc.) as also, reference to North (1990) view. Institutions, shaping by individuals and their interaction offer an incentive structure among the agents by reducing uncertainty and they are to be viewed as

a complex mechanism which guides the performance of regional economy (Lakshamanan and Button, 2009). In overlapping the mentioned issue, another general description is that institutions are 'recurrent patterns of behaviour - habits, conventions and routines' (Morgan, 1997) and the institutions on the economic theory is based on the 'theory of contacts', stressing the serious fact of rules and behavioral codes (Camagni, 2008:3). As parallel with this approach, according to Amin (2000:366), the institutionalist economy mainly stress on the centrality of rational individual and equilibrium-oriented of economic behaviour. This paper may thus argue that institutionalization fundamentally depends on the interpretation of economy and stabilization.

The other research contributing to the development of institutions comes from North. He (1990:3) defines the institutions as "rules of the game in a society, or more formally, are humanly devised constraints that shape human interaction'. He points out that institutions are designed from the ethical and moral behavioral norms and thus social human being is an important constituent part in the construction of institutions. Furthermore, North (1990) argues that institutions play a major role in providing human interaction and notes that economic growth is a function of institutions. They exert a forcible influence in reducing uncertainty, determining transaction cost and building cooperation (North, 1990). He (2003) says that if there is no institution and no governmental action, transaction cost would be zero. So, Institutions, rules and norms especially object to reduce transaction costs (North, 1990; Camagni, 2008). In line with this fact; institutional arrangements make regional and local organization necessary in regard to the existence of strong social values and trust owing to the being of lower transaction cost (Lakshamanan and Button, 2009:447).

In the light of these risen arguments; the institutional structure may build upon three combinations: (1) formal rules, comprising constitutions, laws, organizations etc. (2) informal constraints, comprising social norms, a set of beliefs, conventions, individual behaviours and this kind of community actions and (3) their enforcement characteristics, indicating the effectiveness of these formal and informal institutions in policy action. While formal rules are quickly changeable over time, the exchange of informal institutions is limited in short-run (North, 2003:15). Besides, according to the OECD research conducted by Jütting (2003), formal institutions are the endogenous one which can be changed in a short time whereas

informal institutions are the exogenous one which cannot be changed in short span and are embedded in a local setting.

After being taken the basic theoretical information about institution, it would be meaningful to look at institutional theory under the evolutionary perspective. According to mainstream theories, the perception of regions and the content of institutionalization theory evolve under the changing conditions, through the space and over the time (North, 1990; Amin and Thrift, 1995; Keating, 1997; Storper, 1997; Cooke and Morgan, 2000; Scott and Storper, 2003; Kayasü and Doyduk; 2004). Most economists and those who are rationalist approaches to institutional theory dominate the regulative side of institutions (Meyer and Rowan, 1977; North, 1990; Scott, 2004) whereas recent sociologists, political scientists and those who approach this issue from other disciplines emphasize the cognitive and normative sides (Amin and Thrift, 1995; Morgan, 1997; Scott, 1998: 83-88; Lakshamanan and Button, 2009).

The presence of institutional theory, which was documented in Scott (1995 and 2004), has been emerged through social sciences. In his analysis, institutions are the combination of “cultural-cognitive, normative and regulative elements that, together with associated activities and resources, provide stability and meaning to social life (Scott, 2001:48). He also states that:

“Institutions consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior. Institutions are transported by various carriers – cultures, structures, and routines – and they operate at multiple levels of jurisdiction” (Scott, 1995:33).

According to the other recent reviews of institutional theory, institutions are the authoritative guideline for social behavior and they are fragmented on the organizational form. At this respect; regional economic institutions are constrained in social context and associations, creating a common understanding, networks came into agenda for the interaction patterns (Amin and Thrift, 1995; Morgan, 1997; Scott and Storper, 2003; Rodríguez-Pose, 2009). As a parallel approach given by Storper,

“ Institutions consist of ‘persistent and connected sets of rules, formal and informal, that prescribe behavioral roles, constrain activity, and shape expectations’ and overlap with conventions....Successful formal institutions then, have a hard organizational side, and a ‘soft’ conventional foundation” (Storper, 1997:268-269).

The Place of Institutions in Regional Development

After discussing on the main argument in the institutional theory, as a complementary approach, this part aims to fit institutions into regional framework by combining intersection between institutionalization and regional economic development. As lying at the centre of this study, the institutional factor is a key driver in formulating and operating effective regional policy practices. On the grounds of this fact, institutions as policy makers are responsible to provide appropriate policy tool for the development. Exploring institutions into regional development is reinforcing due to the both impact on cause and the consequence of economic development as endogenous position in practice (Rodríguez-Pose, 2009:20).

When the subject of institutionalization is taken into consideration within the regional field, Paasi (2000:3) defines regional institutionalization as follows:

“This is a process through which a territorial unit becomes an established entity in the spatial structure and is then identified in political, economic, cultural and administrative institutionalized practices and social consciousness, and is continually reproduced in these social practices.”

Following Paasi's thought again; the process of institutionalization of a region has four stages and these steps may not work efficiently for all region and as regards not fully institutionalized, the process is continuous and obviously in flux (1986:105-146; 1991:229-256; 2000:6-8). In this sense, theoretical constructs of Paasi in the determination of four stages are basically:

1. *Territorial shaping*: In conducting the functional process of a region, boundaries defined by several actors refers an identified position in a separate spatial sphere and social structure. This also means that they are 'natural' dividers between social entities and the cause of insider and outsider position in the social and political constructs.
2. *Symbolic shaping*: To signify territoriality, symbolizations may be expressions of the region's image and may be an evident to guide a regional identity.
3. *Institutional shaping*: The establishment of both formal and informal institutions in local practice develops the link in attaining regional identification and this administrative structure provides the social spatial consciousness.
4. *Establishment of the regional system*: After a region has gained an established status, the contiguity of the institutionalization process refers regional consciousness of a society.

Drawing on this basic hand allows referring some remarks concerning to which such institutions facilitate the regional activity and to what extent institutions work to promote successful development process. At this respect, social network relation in economic behaviour and a socially constructed institutionalism come into existence by offering mutuality, consistency, trust, collaboration, reciprocity and personal contacts. Secondly, different individuals in the network relation produce different economic outcomes in decision-making according to their knowledge capacity, perception, learning and cognitive design (Amin, 2004:366,367). This process should continue only multidimensional in the predictable environment and by this way; the institutions' interaction in the network determines the innovation performance (Cooke and Morgan, 2000). Besides, with respect to recent institutional economic discourses, institutionalist approach pertinent to regional economic development is shaped by enduring collective forces and these forces comprise in formal (such as laws, rules, regulation etc.) and informal institutions (such as human behaviour, social capital, stakeholders and other multi-level actors in social norms).

Inserting institutions may also be varied into regional development policies. As a more detailed approach, the capacity of institutions can be analyzed in promoting sustainable growth. An effective regional development mainly depends on the 'strong involvement and intervention of many actors in a region and the building of cooperative relations and social cohesion' (Keune, 2001:32). Besides, in line with the Keune, Healey (1998) defines the elements of institutional capacity as 'its knowledge resources', 'its relational resources' and 'its capacity for mobilization'. According to him, 'integrative place making, collaboration in policymaking, inclusive stakeholder involvement, use of 'local' knowledge and building 'relational' resources' are crucial in building institutional capacity. Furthermore, (1) *the individual level*, by referring availability of skillful and competent staffs in performing their functions efficiently, (2) *the entity or organizational level*, by comprising the organizational structure and working mechanism such as its working culture, social obligations etc. and (3) *the system level* by involving regulations at both national and regional level and their interactions and interdependences of each other have been undertaken in the conducted research by UNDP (1997:25) in order to assess institutional capacity. Alternatively, Hilderbrand and Grindle (1997) expand this issue by presenting 5 dimensions as well as the typical outcome with the previous one. These are '*action environment*' dimension, referring social, economic and political conditions of a region; '*the public sector institutional context*'

dimension, referring rules and procedures that govern the organizations and their employees; *'the task network'* dimension, referring the ability of an institution to cooperate and coordinate in performing particular task; *'organization'* dimension, referring structure and resources of an institution; *'human resources'* dimension, referring the involvement of groups working interdependently to achieve common goals.

In evaluating overall; how to manage regional policy is the main issue for efficient endogenous capacity in institutional turn and regional economic success takes its root from the institutional infrastructure in terms of formal and informal according to its socio-economic situation of the region. This discussion puts forward that different form of institutional dominance occurs in different regions due to the characteristics of locality and their integrity to globalised world (Amin and Thirft, 1995; Kayasü, 2004). It seems clear that poor institutions do not anticipate the changes in social and economic conditions, accompanied by negative externalities, whereas qualified institutions facilitate the economic activity, regarding the right mix of formal and informal institution (Rodríguez-Pose, 2009:19). The cause of the lagging regions is thus mostly infeasible development intervention under the institutional failure. In this sense, the institutions which decision-making process is carried out in cooperation with the involvement of various factors such as regional and local government, universities and private sector organizations enable to formulate effective regional policy.

Understanding the Transforming Institutions in Different Periods

Recent studies have shown that there is a significant link between the institution and regional development. However, this formation process has been evolved over time and the historical progress has shaped the entity of institution resulting from the structural changes in policy action. Within the scope of this part, paradigm shift in institutional formation by putting special emphasis on the process of regional development will be handled; yet, this synthesis will attempt to provide a rough map rather than a detailed survey with all aspects.

The relationship between the institution and regional development has been overlooked under the several theories. Economic growth theory mainly neglected the influence of institutions on regional development and it obviously emphasized on the maximization of profit margin and high growth rates (Amin, 2004; Keating, 1997; Eraydın and Kök, 2008; Dijk et al., 2009 Rodríguez-Pose, 2009). Institutions in the classical economy were shown as an exogenous

factor whilst in the neoclassical economy, under the market-driven system, economic agents mainly focused on the utilization and profit maximization in operating the optimal combination of land, labor and capital (Eraydın, 2008; Lakshamanan and Button, 2009). In regard to this progress, the common perspective draws 2 situations: (1) institutions are initially articulated from the spontaneous behavior and the result of action of certain authority (state and private sector). (2) The appearance of institutions from below as regulating the economic activity in local context is constituted (Lakshamanan and Button, 2009: 445). On one hand, locally constructed institutions are the result of top-down political action to be performed by central government and on the other hand, locality is cited as a bottom-up organization depending on its local endowment assets.

Inward economic policies, occupied with Keynesian intervention and further, sole market coordination in the economic activities weaken the institutional setting. As a consequence, these drawbacks lead to question of institutional change and offer a new complex form of institution (Lakshamanan and Button, 2009:449; Telo, 2002). Regardless of local institutional context; this type of approach believed that firm-sized, industrialization policy would be sufficient for regional development (Keating, 1997; Lowering, 1999; Amin, 2004). However, neo-classical theories failed to integrate institutions and economic development. Therefore, these theories would not be longer adequate in return to regional growth.

While in 1960s, firm- oriented, centralized development model was supported, in 1970s, inter-regional equality issue came on the agenda. However, coming to 1980s, global-local relations have gained importance (Porter, 1990; Camagni, 2002; Eraydın, 2008). For this reason, it would be possible to discuss institutionalization theory through the global-local discourse (Kayasü and Doyduk, 2004). The organizational interconnections and the spread of network activities under the existing institutional structure have thus become increasing importance in the provision of industrial agglomeration (Romer, 1990; Romer 1994; Yeung, 2000).

Until 1990s, institutions have been neglected in regional development issues. Neo-classics and economic growth theory mainly emphasis on the region's investment capacity and capital accumulation. With the emergence of endogenous growth theory; for economic development, innovation and education became a key factor (Romer, 1990; Amin, 1995; Storper, 1997; Raco, 1998; Scott and Storper, 2003). After the 1990s, with the emergence of new

regionalism, institutions became a matter for regional development. Now, as lying at the center of 1990s and recent year studies, the importance of institutional capacity was handled for the region's economic success with the new regionalism approach. (Morgan, 1997; Pike et.al, 2006; Storper, 1995). In other words, learning economy is shaped by the emergence of network relations based on trust, production and diffusion of knowledge to be enabled by spatial proximity (Kayasü, 2004; Kayasü ve Doyduk, 2004). The new economic understanding was built upon innovation and learning based information technology (Kayasü, 2004).

New growth theory claims that the local economic development comprises endogenous condition of agglomeration characterized by relational assets (Belussi, 1999; Camagni, 2009; Cooke and Morgan; 2000; Rodríguez-Pose, 2009). Its central emphasis is on the concrete relationships in the societal structure where cannot diffuse easily one place to another. So, as Scott and Storper underlie:

“Interdependencies tend to have a strongly place-bound and culturally-rooted character and often cannot be transferred easily if at all-from successful to less successful regions. Because access to these assets is spatially and organizationally limited, they enhance the economic advantages’ (Scott and Storper, 2003: 586).

Therefore, it is clearly evident that why many regions success performing economic growth and other regions stagnate. As addressed by current pattern, setting up local asset, organizational interdependencies and cultural and institutional establishment are necessarily consistent to achieve economic development.

In conclusion, the table sums up the transformation process of institutions in regional development.

Table: The Basic Mentality of Institutions In Different Economic Periods

| Type of Institution Considered | Theoretical Frame | Basis of Institutional Approach |
|---|--|--|
| <ul style="list-style-type: none"> - The neglecting of institutions - The awareness of institutional dimension on regional development | <ul style="list-style-type: none"> Neo-classical theory Marxist Tradition Exogenous Growth Theory Economic Convergence Ortodox Assumption | <ul style="list-style-type: none"> - Resource allocation and utilization of market mechanism under the neo-liberal policies - Region's investment capacity and capital accumulation - Firm-size, industrialization policy |
| <ul style="list-style-type: none"> - The institutional turn in regional policy - Institutionalization - Place-bounded institutions and context-specificity policy action | <ul style="list-style-type: none"> Transaction and Political Economies Endogenous Growth Theory Economic Divergence Heterodox Assumption | <ul style="list-style-type: none"> - The entrepreneurial role of institutional environment - Decentralization and deconcentration under the globalization - localization discourses - Local capacity buildings - Innovation and education - Shared norms and trust issues |
| <ul style="list-style-type: none"> - Institutional capacity building in local context - The emergence of 'institutional thickness concept' | <ul style="list-style-type: none"> Social Theories New Economic Growth Theory Associational Economy | <ul style="list-style-type: none"> - Embeddedness, customs and traditions - Socially constructed of economic principles - Changing the background of formal and informal organizations |

Institutionalized Regional Framework

In the research studies on institutional approach, different views took this matter in different ways. To some, institutional perspective focuses on social capital aspect and accordingly; cooperation with the participation of all groups, mutual trust, sharing common values, interconnection should be carried out for regional development (Allmendinger and Tewdwr-Jones, 2000; Glaeser, et al., 2004; Camagni, 2008, Morgan, 1997). Besides, in this system, individuals should act in a conciliatory, effective and responsible manner for local institutional capacity building. The lack of regional growth is told to be the cause of the limited social capital (Rodríguez-Pose, 2009). Others tend to explain this issue with the concept of 'institutional thickness' which indicates similar idea with the first approach (North, 1990; Amin and Thrift, 1995; MacLeod, 1997; Raco, 1998; Kayasü, 2004; Lakshamanan Button, 2009). According to those who defend this idea, the economic performance of a region is directly related with institutional thickness and this concept is emerged by the industrial clusters in order to promote local economic development (Amin and Thrift, 1995; Rodríguez-Pose, 2009). With this concept, Amin and Thrift (1995) mention that various institutions and local social and cultural relations make it possible to adopt changing conditions by reducing the local risks and uncertainty. Moreover, it facilitates circulation of knowledge and increases the innovative capacity for effective economic activity of local

areas, including trade unions, business organisation, civil society movements, local authorities which define the entrepreneurial mode of governance (Rodríguez-Pose, 2009). The common point of these views is based on the adequate and efficient institutions for sustainable regional development.

Recently, regions have gained serious interest in representation of ‘place-based identities and communities’ against global and national circuits (Amin and Thrift, 1995:98). In order to adopt new institutional forms, contemporary regional economy operates its principles in social rule-based (Amin and Thrift, 1995; Lakshamanan and Button, 2009; Morgan, 1997; Scott and Storper, 2003; Rodríguez-Pose, 2009). So, regional economic institutions are constrained in social context and associations, creating a common understanding, networks came into agenda for the interaction patterns. In the line this fact, new perspective remarkably derives from the recognition of embeddedness in the society and culture. Besides, as Raco (1997:975) mentions ‘this institutionalist focus is based on an understanding of global-local relations which argues that successful regions flourish as a consequence of institutional embeddedness or thickness, which create powerful local nodes of economic activity within an increasingly competitive global economy’. However, despite emphasizing the term of ‘institutional thickness’, this may not necessarily generate economic growth (Storper, 1995; Raco, 1997; Yeung, 2000; Lakshamanan and Button, 2009). Indeed, the danger point is that not all of forms of institutional thickness give a guarantee for becoming prosperous and successful local economy as Scott (1998:110) demonstrates. Local embeddedness in traditional culture and behavioural attitudes, controlling and interference to institutional structure are difficult (Amin and Thrift, 1995). Negative externalities can be occurred in the institutional inability due to the lack of coordination in various actors and backwardness of regional policies (Lakshamanan and Button, 2009).

Regions are embedded in ‘territorially- specific institutional arrangements’ and institutions can be shaped or transformed through the local forces of regional socio-economic condition (Kayasü and Doyduk, 2004; Rodríguez-Pose, 2009:16). Indeed, the regional institutionalization pays a critical attention in considering its solidity, depth and local identity in formalization and also broadly varies in institutional construct.

Conclusion: An Overview of Institutions in Regional Development

Social, cultural and political influences on economic development came to the foreground in regional policy. Instead of economic factors' necessity such as production specialization and sufficient division of labour for the growth of industrial agglomeration, now social and institutional factors also become increasingly critical in the creation of successful agglomeration (Amin and Thrift, 1995). However; this does not mean that economic strains have become blurred, of course, they are still important. Besides, new perception claims that institutional factors, involving social relations, maintenance of trust, the emergence of common purpose within the community, cultural interactions, and local supports to business sector, skill formation and so on are important, too.

It would seem that main attention puts forward to construct institutional capacity of regions for endogenous growth, towards the 'new regionalism wave' after recognizing localities' identification within the global economy. Regarding with new patterns and agendas, regionalism with the influence of globalization strengthens the interdependence and provides effective giants towards developing regional cooperation and building inter-regional regime (Telo, 2002). Thereby, there has been a fragmentation in policy coordination through the existing a variety of new actors and organization and devolution of government has occurred. The critical factor for building local capability is institutional arrangement in regional economy. For that reason, building institutional support would bring regions encouragement incentives for sustaining their livings and also, institutional base (such as regional development agencies, chambers, business organisation, local government and other authorities) could help regions to encourage their economic competitiveness.

To overall assessment; recent studies have shown the fact that institutions are recognized as an important determinant in shaping regional economic development, but yet; limited analytical analysis which exactly indicates the linkage between institution and economic success have done due to the depending on the nature of embeddedness in social context. Thereby, to measure the institution is difficult in terms of their endogeneity with development factors. Institutions not only consist of formal situation such as laws, rules and organizations, but also informal context such as behavioural roles, social and cultural norms, values and interaction patterns and they are interested in the embeddedness of specific context (North,

1990; Storper, 1995; Amin and Thrift, 1995; Kayasü and Doyduk, 2004). So, institutions can be defined in regard to assessing associational economy.

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