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## Article

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Review

# Institutional Change and Endogenous Development: Theoretical Contributions

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**Abstract:** This essay aims to address the existing theoretical gap regarding the in-depth study of institutional change and its relationship with the endogenous development potential of regions. The intersection of these two theoretical approaches offers an understanding of how changes in formal and informal institutions can influence local development, especially when internal resources and local capacities drive this progress. The research was conducted using a bibliographic method and adopts a qualitative approach, seeking an in-depth understanding of the topic. Relevant assumptions about endogenous development were presented and articulated with the institutional change by Douglass North. The contribution of this theoretical approach was to highlight the role of institutional change as a driving force behind regional endogenous development, defining, from the perspective of endogenous development, the institutions that are determinants of the development process of economies. Based on our theoretical construction, we suggest future studies that are concerned with illustrating empirical cases of how formal and informal institutions can promote endogenous development.

**Keywords:** economic development; institutions; institutional economics; regional development



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## 1. Introduction

Interest in regional development has arisen particularly since the 1990s due to growing economic integration. The study of how changes occur in societies is carried out from various perspectives, be they economic, social, or even psychological. In contemporary economic development theory, the concepts of institutional change and endogenous development have both received significant attention for their roles in shaping long-term growth.

Institutional change refers to shifts in the rules and structures that govern economic and social interactions. Endogenous development, in contrast, focuses on local resources and internal capabilities as drivers of growth. According to Mitchell (1967), economic activity occurs within a co-evolving institutional and cultural context.

New institutional economics (North, 1986, 1990, 2005) explains that institutions and economic growth are mutually reinforcing. Lopes (2013) adds that institutional theory helps explain how changes in institutions shape livelihoods and production. Institutions serve as mechanisms that enable growth across time and space (Conceição, 2002a).

North (1990) classifies institutions as formal (laws and rules) or informal (conventions, behavior norms). Institutions reduce uncertainty and provide stable—though not always

efficient—structures for human interaction. They also define society's incentive framework, directly influencing innovation and performance (Lopes, 2013).

The endogenous development perspective explains capital accumulation through innovation, production organization, urbanization, and institutional dynamics. These elements interact synergistically to generate growth (Vázquez-Barquero, 2007).

This approach argues that institutional change is a determining factor in the development of economies. Change and adaptation to new conditions allow organizations to establish agreements and contracts, exchange goods and services with low transaction costs, boost entrepreneurial capacity, and strengthen trust and cooperative relations between local actors (Vázquez-Barquero, 2010).

Endogenous development also supports local strategy making to face global competition. It redefines territory not as a space for activities, but as a dynamic context where surplus, economies of scale, and cost reduction generate viability. Institutional change is, thus, essential to understanding regional development and its endogenous potential. However, a theoretical gap remains as to how institutional change, through an institutionalist lens, supports such development.

Further study of this issue is essential to understand how institutional changes occur and how this can be a factor in the endogenous development of regions, providing self-sustainable development in urban and rural areas. Moreover, it is necessary to understand which institutions need to change to promote regional development and facilitate the introduction of innovations. This leads to the diversification of productive activities and market access.

Therefore, this theoretical essay aims to develop a theoretical articulation between institutional change and endogenous development to understand the economic development of regions, which has been widely debated in the social and economic sciences. This work provides a better understanding of the studies of various authors, such as Douglass North, Vázquez-Barquero and Amaral Filho, promoting the intersection of endogenous development and institutional change.

## 2. Literature Review

### 2.1. Endogenous Development

The interpretation known as endogenous development was developed in the early 1980s. Its main proponent was the Spaniard Antonio Vázquez-Barquero, accompanied by researchers, such as Sergio Boisier and Jair do Amaral Filho. This interpretation sees development as a territorial process in which society's capacity for innovation is the mechanism that drives the transformation of the economy. It also considers that development policies are more effective when designed and implemented by local actors (Vázquez-Barquero, 2010).

According to Amaral Filho (1996), the concept of endogenous development is associated with the rupture caused by the traditional theory of growth. This theory was based on a production function in which the volume of production ( $Y$ ) was a function of two factors, namely capital ( $K$ ) and labor ( $L$ ). This traditional theory was represented mainly by R. Solow, and its break was observed due to the emergence of endogenous growth theories (represented mainly by R. Lucas and P. Romer).

Traditional theory explains output variation ( $dY$ ) through marginal productivity coefficients of production factors, assuming linearity, homogeneity, and constant returns. In contrast, R. Lucas and P. Romer introduced endogenous factors—such as human capital, knowledge, information, and R&D—into the growth model, previously treated as exogenous (Amaral Filho, 1996).

From the endogenous development perspective, growth must be rooted in the territory, relying on entrepreneurial capacity and investments based on local resources and savings.

Without these, long-term development is limited (Vázquez-Barquero, 2010). Amaral Filho (1996) defines endogenous development as a bottom-up process, driven by each region's own socioeconomic potential, rather than by top-down state planning.

From the endogenous perspective, development is structured by the local actors rather than through centralized planning (Amaral Filho, 1996). In terms of its theoretical construction, the endogenous development theory is an interpretation based on the contributions of classical and contemporary economists. In particular, it draws on the contributions of Schumpeter (1934) and Kuznets (1966) on capital formation, technological change, and productivity growth; those of Marshall (1890, 1919) and Rosenstein-Rodan (1943) on the organization of production and rising incomes; those of Perroux (1955) and Hoover (1948) on growth poles, urban development, and agglomeration economies; and those of Coase (1937) and North (1990) on the development of institutions and the reduction of transaction costs. From this perspective, endogenous development makes an effort to discuss sustained productivity growth within the framework of economic and social progress (Vázquez-Barquero, 2007, p. 203).

In this sense, the foundations of endogenous development and its proposals demonstrate compatibility with other, more conventional approaches to development (Vázquez-Barquero, 2007). Nevertheless, it is possible to state that the perspective of endogenous development is heterodox, understanding that economic growth must be understood as a process with deep historical roots and incorporating relevant aspects of the notion of growth that go beyond the limitations imposed by the neoclassical mainstream (Conceição, 2002a).

Countries' interest in the development of each of their territories, including endogenously, may have been motivated by the growing demand for decentralization, whether political or territorial, and by the recognition that the realization of each individual's life project is highly dependent on the behavior of the environment in which they live (Boisier, 1996).

Specifically, regarding the development of rural regions, Vázquez-Barquero (2010) suggests that there is a more significant problem considering the new international division of labor due to such factors as depopulation, lack of basic infrastructure, and environmental pollution. In this sense, Vázquez-Barquero (2010) points to the need for rural regions to specialize in productive activities to have competitive advantages in national and international markets.

Rural development can advance when institutions are flexible and there is strong capacity for innovation, entrepreneurship, and global integration through productive, commercial, and technological networks (Vázquez-Barquero, 2010). In a context of globalization and increasing territorial competition, the endogenous development approach becomes a useful tool to understand regional dynamics and promote capital accumulation (Vázquez-Barquero, 2000).

The processes of capital accumulation and the consequent development of economies depend, according to Vázquez-Barquero (2000, 2003, 2007), on a set of determining factors that act synergistically, which can be defined as (i) the diffusion of innovations, (ii) the flexible organization of production, (iii) territorial and urban dynamics, and (iv) the density (and flexibility) of the institutional matrix.

Vázquez-Barquero (2003) argues that cities and regions grow more effectively when the following four factors converge: innovation diffusion, flexible production, urban development, and institutional evolution. Together, these elements enhance productivity and returns by fostering economies of scale, external economies, and lower transaction costs.

## 2.2. Factors Determining Endogenous Development

The first determining factor of endogenous development to be analyzed is the diffusion of innovations and knowledge. The endogenous development theory maintains that capital accumulation is ultimately the accumulation of knowledge and technology. In this sense, economic development depends on introducing and diffusing innovations and knowledge, which promote the transformation and renewal of production systems (Vázquez-Barquero, 2000).

Economies of scale are generated for the benefit of all system members to the extent that the introduction and diffusion of innovation and knowledge improve the stock of technological knowledge in a given production system. Thus, innovation can be understood as the collective result of cooperation between the companies that make up the system, promoting greater productivity and increasing the competitiveness of local economies (Vázquez-Barquero, 2003).

Schumpeter (1997) highlights entrepreneurship and innovation as the driving forces of economic development. For him, development results from “new combinations”, which include (1) introducing a new good or a new quality of an existing good; (2) applying a new production method, even if not based on scientific discovery; (3) opening a new market, whether or not it previously existed; (4) accessing a new source of raw or semi-processed materials; and (5) establishing a new industrial organization, such as forming or breaking up monopolies (Schumpeter, 1997, p. 76).

In other words, innovation can occur in various ways, whether through designing a new product to be marketed, a new manufacturing method, or even opening up a new market. According to Vázquez-Barquero (2003), when firms in a given production system have a low capacity for learning, there will be resistance to the diffusion of innovations, as well as when a lack of flexibility makes it difficult to adopt innovations.

In highlighting the importance of innovation and the diffusion of knowledge for the performance of economies, Vázquez-Barquero states that:

Economic growth can persist if investments in capital goods, human capital, and R&D generate increasing returns through the diffusion of innovation and knowledge. Training, technology adoption, and R&D investment create spillover effects, spreading innovation across the production system. Knowledge transfers through formal and informal networks, customer-supplier interactions, and the labor market. Even less innovative firms benefit, as they gain access to knowledge without raising production costs. As a result, the entire economy benefits from the increasing returns produced by individual firms' investments (Vázquez-Barquero, 2010, p. 39).

Furthermore, it is understood that the introduction and diffusion of innovations are conditioned by the characteristics of the institutions (social, cultural, and political norms and rules, and research centers, universities, and associations) of a given production system and its creative capacity. In other words, the more flexible and the higher the quality of the actors' networks, the more effective the innovation mechanisms will be (Vázquez-Barquero, 2003).

Regarding urban development, Vázquez-Barquero (2003) emphasizes the role of cities as hubs for learning, innovation, and technology diffusion. The concentration of people, firms, and organizations promotes interaction and knowledge exchange, fostering continuous learning. Urban agglomerations offer the scale needed for innovation, while physical proximity and worker mobility enhance communication and the spread of ideas (Vázquez-Barquero, 2003).

Furthermore, cities have great potential for generating development, and cities have been pushed to create local strategies to respond to the competitiveness re-

sulting from globalization processes, stimulating endogenous development processes (Vázquez-Barquero, 2003).

Urban centers have become the preferred spaces for development because they are in cities where industrial plants and service offices are located and investment decisions are made (Vázquez-Barquero, 2010; Lasuen, 1973). Cities also have diversified production systems that stimulate economic dynamics, spaces that encourage networking and the diffusion of innovations, and externalities that generate growing incomes (Vázquez-Barquero, 2010).

According to Vázquez-Barquero (2010), economies develop when firms conduct their activities in dynamic cities and urban regions, providing firms with quality resources and enabling externalities and economies of proximity that favor firm efficiency.

In addition to innovation diffusion and urban development, Vázquez-Barquero (2000) highlights the flexible organization of production as key to endogenous development. The structure of relationships between firms, suppliers, and customers shapes local productivity and competitiveness. Thus, organizing local production systems becomes a central element in capital accumulation.

The formation and development of networks and flexible systems of companies, as well as the interaction of companies with local players and strategic alliances, can generate economies (external and internal) of scale in local production systems. In addition, economies of scale are also observed in product research and development, thus reducing transaction costs between companies (Vázquez-Barquero, 2007).

Amaral Filho (2002) also emphasizes the role of flexible production structures in regional development. Regardless of the label—industrial district, cluster, innovative environment, or local productive system—these arrangements share key elements, including social capital, collective strategies for production and market access, and political–institutional coordination.

In this sense, the interaction between the agents of the production systems takes center stage. In other words, “it is no longer a question of a passive agglomeration of companies, but of an active collective of public and private agents acting in the same interest: that of maintaining the dynamics and sustainability of the local production system” (Amaral Filho, 2001, pp. 277–278).

Notwithstanding the forces of flexible production organization, the development of cities, and the diffusion of innovations, Vázquez-Barquero (2007) categorically states that endogenous development occurs in territories whose institutions and culture stimulate economic progress and social transformations.

Development processes have deep cultural and institutional roots to the extent that firms and economic and social actors make investment decisions depending on the norms and rules in each territory. In this sense, various factors, such as the contracts and norms that regulate agreements, the population’s codes of behavior, governance, and culture, determine the development path of each territory (Vázquez-Barquero & Rodríguez-Cohard, 2016).

Thus, according to Costa (2010), culture underpins institutions, and institutions determine transaction costs and access to information in an economy. This ultimately determines whether there is an environment conducive to development. This justifies the relationship between societies’ institutional environments and their potential for economic growth.

Institutional development also depends on cooperation among local actors and a democratic environment that enables broad participation in economic decisions and development policies (Vázquez-Barquero & Rodríguez-Cohard, 2016). Economies advance when institutions evolve to support agreements, contracts, and exchanges at low transaction costs. Institutional change thus becomes a key driver of development, shaping production, trade relations, and investment decisions (Vázquez-Barquero, 2010).

Vázquez-Barquero's institutional perspective brings the institutional debate into territorial economic development, emphasizing that local institutions—both formal and informal—shape productive organization, innovation, and governance. Combined with Douglass North's institutional theory, this approach deepens our understanding of institutions as historical structures that influence incentives and long-term economic performance.

### 2.3. Institutional Change by Douglass North

Vázquez-Barquero's understanding of institutional flexibility as a condition for the development of economies is closely related to the experience of institutional change insofar as institutions are flexible due to their transformative power. Thus, it is essential to have a more detailed understanding of institutions and institutional change from the institutionalist theoretical framework itself<sup>1</sup>.

Lopes (2013) states that institutionalist theory is key not only to understanding how the economy works but also to analyze how institutional change affects people's lives and production systems across countries. To explore institutions and institutional change, this study adopts the new institutional economics theory, especially Douglass North's theory, which aligns with Vázquez-Barquero's view on institutional flexibility and transformation.

Both North and Vázquez-Barquero see institutional change as central to economic development. They argue that institutions can lower production and transaction costs, enhance entrepreneurship, and foster cooperation among local actors. These institutionalist perspectives challenge neoclassical economics by emphasizing the role of institutions, the importance of historical context, and the diversity of growth paths (Conceição, 2008). In this view, institutions act as mechanisms that drive development within specific times and places (Conceição, 2002a).

New institutional economics (NIE) is one of the institutionalist theoretical streams recognized for the works of Ronald Coase, Oliver Williamson, and Douglass North. In "The Nature of the Firm", Coase (1937) laid the foundations of NIE by justifying the existence of firms based on the reduction of transaction costs, which was later expanded upon by Williamson in the development of a theory of transaction costs.

New institutional economics presents two complementary approaches. The first, developed by Douglass North, is macro-institutional in scope and focuses on the origin, structure, and evolution of institutions—understood as the rules that shape societal behavior. The second, which is micro-institutional in nature, is linked to the economics of organizations and examines the variety of institutional arrangements. Both approaches treat institutions as central to analysis, with the micro perspective viewing the firm as a nexus of contracts (Zylbersztajn, 2005, p. 397).

Conceição (2002a) explains that NIE is built on three interconnected concepts, namely bounded rationality, opportunism, and transaction costs. Transaction costs arise because economic behavior is limited by rationality and influenced by opportunism—both of which reflect market imperfections.

Bounded rationality refers to the impossibility of knowing all the necessary information to make optimal decisions, with the understanding that agents make decisions as reasonably as possible in pursuing specific goals, given informational poverty (Gala, 2003). On the other hand, opportunism manifests in the weakness of reason itself, understood as the pursuit of self-interest with guile (Conceição, 2002b).

Therefore, the "economics of transaction costs" and industrial organization define the institutional environment—and, consequently, the institutions—that guide the decision-making process in a context permeated by uncertainty, bounded rationality, and opportunism, aiming to reduce transaction costs (Conceição, 2002b, p. 131).

Although North also uses the concept of transaction costs, he broadens the institutional analysis to understand institutional change as a determining factor in economic development. For North, “the trajectories of institutional changes are essential in defining the different forms of economic growth” (Conceição, 2008, p. 95).

The primary objective of Douglass North (1990) was to provide a theoretical framework to analyze the influence of institutions on the performance of economies. Institutions affect the performance of economies through their impact on transaction and production costs. Thus, “Douglass North’s institutionalist works begin by demonstrating the failures of neoclassical theory in addressing the determinants of economic performance throughout history” (Lopes, 2013, p. 622). In other words, North identified that neoclassical theory did not consider the existence of information costs and the uncertainty in investing. Thus, it could have been more effective at explaining the reasons behind different economic performances over time (Lopes, 2013).

According to North (1990), institutions can be formal (laws and rules) or informal (conventions, codes of conduct, behavioral norms), serving as guides for human action. Their main function is to reduce uncertainty by creating a stable—though not always efficient—framework for interaction. Ultimately, institutions define a society’s incentive structure, meaning that its performance depends on both institutions and the incentives they create for innovation and efficiency (Lopes, 2013).

Years after presenting this initial definition of institutions, North expanded the concept of institutions in a new work written by Wallis and Weingast. They defined institutions as the rules of the game, “but not only in the sense of norms, as they would include formal laws, informal norms of behavior, and the beliefs shared by individuals about the world” (North et al., 2009; Bins, 2019, p. 18).

Regarding informal institutions, North (1990) clarifies that they originate from socially transmitted information and are part of the heritage we call culture. According to North (1990), informal constraints that are culturally derived will not change immediately in response to changes in formal rules, suggesting the prevalence of informal constraints over formal ones.

According to Lopes (2013), Douglass North links economic performance to three key factors shaping institutions and their change, namely learning, shared mental models, and evolving beliefs. For North (2005), institutions reflect the beliefs a society accumulates over time, making institutional change an incremental process shaped by historical constraints.

North (2005) argues that institutions mirror prevailing societal beliefs. Thus, market structures reflect the interests of those in power—whether to maintain monopolies or promote competition. Beliefs guide individual actions, which may either preserve or transform institutional structures, influencing the potential for economic growth (Lopes, 2013).

In this context, path dependence explains how institutional evolution is shaped by cultural legacies, learning, and mental models. Present choices are limited by past institutional frameworks, which also give rise to organizations. These organizations often resist changes that threaten their survival (North, 2005).

Nonetheless, organizations—political, economic, social, or educational—are key agents in society. They arise from the existing institutional framework and pursue goals shaped by available incentives. Thus, economic performance and institutional change result from the interaction between organizations and institutions (Gala, 2003).

Thus, understanding institutional change in Douglass North implies analyzing the interaction between agents represented by organizations and the existing institutional framework. In other words, economies’ performance results from the choices of agents interacting with the existing institutional framework, which is changing over time. In turn,

agents' choices result from their shared beliefs, which arise from mental models and evolve through learning (Lopes, 2013).

For North (2005), institutions generally change incrementally as entrepreneurs and political and economic organizations perceive new opportunities or react to new threats that affect their well-being. Thus, institutional change can result from changes in formal rules or informal rules or the enforcement of either.

In this sense, long-term economic change is a “cumulative consequence” of various short-term decisions made by organizations and politicians that ultimately determine, directly or indirectly, economic performance (Conceição, 2008). The economic and institutional change process, in turn, must encompass the following aspects: “uncertainty in a non-ergodic world; belief systems, culture, and cognitive science; human awareness and intentionality” (Conceição, 2008, p. 96).

When questioning how institutions change, North (2005, p. 59) suggests that institutional change follows five propositions, as follows:

1. The key to institutional change is the continuous interaction between institutions and organizations in an economic setting of scarcity and, hence, competition.
2. Competition forces organizations to continually invest in skills and knowledge to survive. The kinds of skills and knowledge that individuals and their organizations acquire will shape evolving perceptions about opportunities and, hence, choices that will incrementally alter institutions.
3. The institutional framework provides the incentives that dictate the kinds of skills and knowledge perceived to have the maximum payoff.
4. Perceptions are derived from the mental constructs of the players.
5. An institutional matrix's economies of scope, complementarities, and network externalities make institutional change overwhelmingly incremental and path-dependent.

North (2005) emphasizes the distinction between institutions (the rules of the game) and organizations (the players), defining institutional change as the result of their interaction. Organizations—such as firms, unions, cooperatives, or political parties—are formed by individuals pursuing shared goals. The institutional matrix shapes which types of organizations can emerge.

Institutional change occurs when organizational actors, facing market competition, identify new opportunities. They may then seek to change the rules—either through political processes or by pressuring for better enforcement of existing norms or sanctions.

The second proposition highlights competition as a key driver of institutional change. Scarcity and rivalry push organizations to invest in skills and knowledge to enhance efficiency and survive (North, 2005). When competition is weak or absent, there is little incentive for innovation, and institutional change tends to stagnate.

In this sense, North also emphasizes the importance of knowledge for the evolution of societies, as follows:

[..] The stock of knowledge the individuals in a society possess is the deep underlying determinant of the performance of economies and societies, and changes in that stock of knowledge are the key to the evolution of economies. [... ] The key point is that learning by individuals and organizations is the major influence on the evolution of institutions. (North, 2005, p. 63)

The third proposition states that a society's incentive structure—its institutions—determines which types of organizations emerge and whether they are motivated to invest in skills and knowledge. For instance, when higher productivity leads to greater profits, organizations are more likely to invest in improving their capabilities (North, 2005).

In the fourth proposition, [North \(2005\)](#) emphasizes that individuals' choices depend on how they perceive their environment, shaped by mental models. These models arise from cultural background, local experiences, and external learning, meaning people from different contexts may interpret the same reality in different ways.

The fifth proposition highlights the mutual dependence between institutions and organizations. An organization's success relies on the institutional framework that enables its existence. Thus, institutional change tends to be incremental and path-dependent—resisted by those it may harm and shaped by the knowledge and skills that organizations have already developed ([North, 2005](#)).

Based on these five propositions and the characterization of institutional change, [North \(2005\)](#) believes he has built the fundamental foundation for understanding economic change. These propositions should guide the analysis of institutional change as a determining factor in endogenous development.

### 3. Discussion

#### *Endogenous Development and Institutional Change: A Theoretical–Empirical Proposition*

The Endogenous Development perspective posits that institutional change is a determining factor in the development of economies. Adapting to new conditions enables organizations to create agreements, trade efficiently, and reduce transaction costs, enhancing entrepreneurship and cooperation ([Vázquez-Barquero, 2010](#)).

Since each society's institutions regulate production and commerce, change in these frameworks shapes the development process ([Vázquez-Barquero, 2010](#)). For the present essay, it is essential to define which institutions will be studied in terms of their change processes as determinants of endogenous development.

North's definition of institutions includes formal rules, informal norms, and shared beliefs. These guide human behavior and reduce uncertainty by stabilizing interaction. Cooperation and local participation, according to [Vázquez-Barquero and Rodríguez-Cohard \(2016\)](#), enable collective action and regional planning.

Moreover, local development can also be characterized by the presence of institutions that facilitate the adoption of innovations, firm competitiveness, and entrepreneurship. These may include business creation programs and support for innovation diffusion ([Vázquez-Barquero & Rodríguez-Cohard, 2016](#)).

Equally important are cultural values and behavioral norms, which influence investment and cooperation. Trust and governance mechanisms allow firms to take risks and grow ([Vázquez-Barquero & Rodríguez-Cohard, 2016](#)). From an endogenous perspective, we identify three types of institutions that shape development, namely formal rules, informal norms, and shared beliefs (Figure 1). Categories are intended to be exhaustive but may exhibit some overlap depending on the empirical analysis.



**Figure 1.** Classification of institutions determining endogenous development.

Economic institutions include the formal and informal rules and shared beliefs related to transactions carried out by economic actors. Economic institutions are associated

with the role of the state as a regulatory and financing agent and in terms of applicable laws and norms concerning activities, production, and marketing and governance in the vertical sense, considering the relationships of organizations with the market, suppliers, and customers.

Organizational institutions are the formal and informal rules and shared beliefs related to cooperation mechanisms and social actors’ participation in decisions. These institutions can consist of laws, norms, formal contracts, and agreements that ensure cooperation among local actors or even horizontal mechanisms for organizing production. Organizational institutions can also be understood as democratic mechanisms for participation in decision making and knowledge and innovation transfer relationships.

In this context, the studies conducted by Krstić and Gawel (2023) evidence the positive impact of international trade, human resources and innovation on the competitiveness of regions, and these factors, when well developed, generate an environment that reduces barriers to entry, promotes productivity, and stimulates investment. Topić et al. (2024) contribute to this view by showing that sociodemographic differences directly influence the adoption of sustainable behaviors, which indicates that public policies should be designed based on consumers’ local realities.

Behavioral institutions are understood as cultural mechanisms that facilitate (or hinder) economic activity, conditioned by society’s beliefs and cultural roots. These mechanisms are typically informal rules and shared beliefs understood as norms of behavior and economic and non-economic motivations (Figure 2).

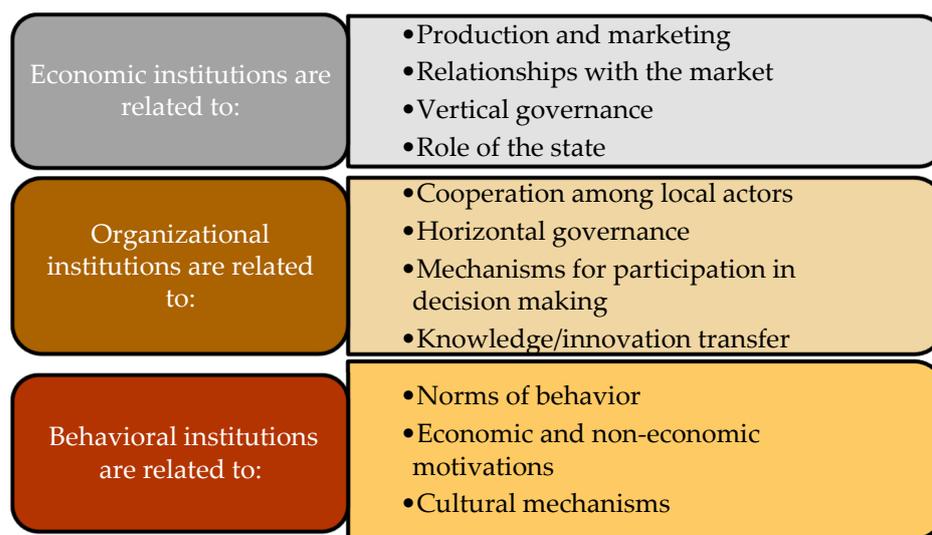


Figure 2. Summary of the definitions and characteristics of economic, organizational, and behavioral institutions.

In the hypothetical case of a wine-producing region, economic institutions would be, for example, regulations governing wine labeling and trade. Organizational institutions influence collaboration, and an example could be the existence of a regional association of grape growers that facilitates knowledge sharing. Behavioral institutions, on the other hand, could be related to the tradition of family-owned vineyards and multi-generational knowledge transfer.

Based on North (2005), institutional changes are often slow and path-dependent. They emerge through competition and through organizations adapting to incentive structures. Perceptions, mental models, and accumulated knowledge also influence change. This understanding of change through the interaction between organizations and the prevailing institutional framework is also found in Vázquez-Barquero’s work.

Vázquez-Barquero (2010, p. 209) highlights that institutional change occurs when governance actors see a strategic advantage in new rules. Change happens when organizations align with these benefits and advocate for new arrangements.

According to the theoretical model proposed by North, development results from the interaction between the prevailing institutional framework and the choices of social actors (individuals and organizations) in their production process, with these choices ultimately affected by the beliefs, mental models, and learning that occur over time (Lopes, 2013). Therefore, understanding the prevailing institutions and the process of institutional change can contribute to understanding the context in which individuals' choices are made and how this relates to the development process of societies.

#### 4. Conclusions

This work aimed to address the existing theoretical gap regarding the study of institutional change and its relationship with the endogenous development potential of regions. Creating new institutions and replacing old ones is a slow and complex process that occurs due to negotiations and agreements among economic and social actors and organizations considering changes in the environment.

Institutions shape economic and social interactions and the shared beliefs permeate actors' decisions regarding their business conduct (such as cooperation, investments, diversification, innovation). When these institutions change, they can decisively influence the local development process, mainly driven by internal resources and capabilities, characterizing endogenous development.

Endogenous development allows regions to achieve autonomy in relation to external economic forces. In addition, endogenous development policies can enhance a region or community's capacity to respond effectively to the challenges of globalization, using solutions that emerge within society itself. This creates an environment of economic resilience that can be sustained in the long term through institutional innovations.

The study also sought to define the institutions that are determinants of the development process of economies, namely economic, organizational, and behavioral Institutions, which are characterized as formal rules, informal rules, and shared beliefs among economic actors, respectively.

The relevance of this research rests on the understanding that competition, cooperation, and investment in knowledge and skills spark institutional changes essential for endogenous development, making them key premises for shaping policies and initiatives that encourage economic growth and regional development.

That said, institutional change and endogenous development are deeply interconnected processes. Flexible institutions are essential for endogenous development to occur, while local growth can generate demands for institutional transformations. For this cycle to materialize, a flexible institutional environment that promotes innovation, education, and collaboration and policies that value and encourage local capabilities are necessary.

Further empirical research can verify the institutions present in the economic sectors of a given region, identify the possible occurrence of institutional changes, and determine whether such changes (or lack of changes) can be understood as an endogenous development factor of the region. Based on our theoretical construction, we suggest future studies that are concerned with illustrating empirical cases of how formal and informal institutions can promote endogenous development. This field of study still has much to explore, allowing researchers interested in the processes of institutional change and endogenous development to venture into new approaches, especially within studies based on the capacity of local institutions to adapt to new demands of the global market.

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## Note

<sup>1</sup> It is important to note that the analysis of institutional change is based on Douglass North's institutionalist theory. However, the literature review is plural and seeks to make theoretical connections between North's ideas and authors linked to original institutionalism.

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