Discussions on Institutionalist Analysis and the Paradigm of Institutional Change

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Abstract: The core elements of the neo-institutionalist approach assumes economic growth as a peculiar process not liable to be copied by institutions in so far as the individual characteristics of each institutional trajectory are not reproduced due to its history and scenery and therefore, its configuration cannot be reproduced given the factual situations. This study approach discusses the main contributions of researchers like Hodgson, Thellen, North, Mahoney and Thellen and Chang and Evans about the institutions and the paradigm of change. The processes of change are presented and discussed in view of public policies and the processes of institutional change. The perception of change shows that economic, political and social institutions as well as the interaction of agents, financial resources and technology define the performance and the institutional development.

Keywords: Processes of change, neo-institutionalism, public policies, trajectory, economic growth

INTRODUCTION

This study does not intend to discuss the entire theoretical framework of the neo-institutionalist theory but to highlight some key issues for the analysis of paradigm change. Thus, in view of the enormous contributions on the subject we discuss some contributions made by North (1990), Mahoney and Thellen (2010).


The researchers believes that the three approaches have peculiar characteristics and elements of consensus and divergence. The consensus is present in the first place, given the fact that the economic growth is a process. Secondly, the assumption that it is not possible to copy cases of success as there are peculiarities in each institutional trajectory and therefore, they are not liable to mere adaptation, since its configuration cannot be totally reproduced due to their intrinsic characteristics.

According to Hodgson (1998a, b) “institutions are long-lasting systems of established and embedded social rules which organize social interactions.” Castro (2009) states that the institutionalist approach is broader than the functionalist view in which the institutions are efficient tools which enable individual coordination to pursue organizational goals or the Keynesian contract’s accomplishment approach. He points out that it is more comprehensive than Thellen (2003)’s instrumentalist perspective in which the institutions change driven by exogenous factors.

They may also be perceived as constitutive, insofar as they have a symbolic dimension (cultural) propagating values and common beliefs to their agents and defining preferences. Castro (2009) who believes that institutional change requires worldview change which are
inevitably behind the structure of the institutions (institutions change in rupture stages or mainly to adjust to the changing environment) shows us how societies evolve over time and therefore are the key to understand change and social action.

**Douglass North’s contribution**: Institutions consist of a set of behavioral restrictions in the form of rules and regulations, a number of procedures to detect deviations from the standards and regulations and finally a set of behavioral moral standards and well defined ethical lines as well as the rules and regulations which determine their compliance (North, 1990).

The key concept for understanding the prosperity proposed by North is an efficient institution. The researcher defines this type of institutional arrangement: it is able to match the private return to the social return of the economic activities of the agents of a given society. An effective institutional framework will be capable of stimulating an agent or an organization to invest in an individual activity which brings greater social returns than its social costs (Gala, 2003).

North (1990) sought to demonstrate that the long-term growth of a society is supported by the formation and evolution of its institutions. His object of study found that institutional developments were more important than the technological innovations observed in the development of ocean transportation industry productivity in the United States in the 1960s.

As one of the founders of the new school of thought, his studies have been added to those of researchers like Oliver Williamson, Ronald Coase and Harold Demsetz, who originated the New Institutional Economics research program.

North sought to understand how the long-term economic development was sustained and his research revealed that the key to the economic problem is not in technological progress or capital accumulation. It is in the rules or institutional arrangements that stimulate or inhibit activities in this respect (Gala, 2003).

This rationale reverses what the traditional economic literature praises to the extent that the causes of growth are nothing more than consequences of a specific given institutional matrix. Ultimately, the causes of growth, identified by this view are growth itself (Gala, 2003).

This logic assumes that to achieve growth is to stimulate the accumulation of physical and human capital. For Gala (2003) “the great distance observed even today between rich and poor countries lies far more on differences between institutional matrices than on problems of access to technology”.

The “poor societies are in this situation precisely for not having developed a base of rules, laws and customs capable of stimulating economically productive activities, specifically the accumulation of capital and knowledge”; highlights (Gala, 2003).

The interpretation of this researcher about the agent’s decisions proves to be surprising because before the impossibility of information necessary for making optimal decision attributed more to the lack of skill in dealing with complex problems, lack of informational capacity and changing realities, the agents are unable to make optimal decisions. Thus, “from the moment that the agents do not know the world upon which they must decide, they begin to build subjective realities and act upon them” (Gala, 2003).

This is the basis of the procedural rationality advocated by Simon (1979) in his institutional theory, stating that we seek to act rationally given our informational limitation or poverty.

As a result of the institutional dynamics, changes happen gradually-vision shared by Mahoney and Thellung (2010) as they impact the framework of a society’s rules. Thus, “the decisions taken in the past have, therefore, a strong influence on the possibilities of the present” (North, 1990). Regarding the institutional economic environment, Gala (2003) presents some characteristics of North’s thought.

**Summary of the institutional framework of North under the economic approach**: The economic and social environment of the agents is fraught with uncertainty. The main consequences of uncertainty are the transaction costs which can be divided into measurement and enforcement. In order to reduce transaction costs and coordinate human activities, societies develop institutions. They are a continuum of rules with two extremes: formal and informal.

This set of rules can be found in the institutional matrix of the societies. The dynamics of this matrix will always be path dependent. From this matrix, stimuli for the emergence of organizations which may be economic social and political are defined. They interact with economic resources which along with the technology employed define the traditional transformation costs of the economic theory and with the very institutional matrix which define the transactions costs and are therefore responsible for the institutional development and economic performance of societies over time (Gala, 2003).

In North (1990)’s model uncertainty is a fundamental concept as the impossibility of economic transactions in a society is the result of its existence which can be expressed by the lack of information that interferes in the
choice and action of the agents which generate transaction costs, divided into measurement and enforcement costs. For Gala (2003) “the first one relates to the difficulty of agents in really knowing the current transaction object due to information asymmetry problems”.

Yet for this researcher “the crucial point is the impossibility of knowing the product’s quality ex ante by the buyer agent for a transaction which may, ultimately, abort the exchange, withdrawing possible trade gains.” The enforcement costs refer to “the uncertainty agents have on the ownership of the asset to be exchanged and therefore relate to legitimacy problems of the transaction to be conducted”. For Gala (2003) “if some kind of protection framework is not present in order to minimize this type of uncertainty the exchanges between these agents will not be possible”.

By defining organizations, North (1990) distinguishes them, according to their nature as formal represented by laws and constitutions, formalized and written and informal, resulting from standards or conduct usually built by society itself.

In accordance with North (1990) the organization is the main agent of a society and in this broader classification are present: “political bodies (political parties, the Senate, a city council, a regulatory agency), economic bodies (firms, trade unions, family farms, cooperatives) social bodies (churches, clubs, athletic association) and educational bodies (schools, universities, vocational training centers)”.

According to the researcher institutions emerge and begin to interact with other institutions and operate with the restrictions of economic nature. From the interaction with other institutions, institutional performance and its institutional evolution arise. North (1990) points out that “over the historical process, the various organizations can invest their efforts in several ways, always searching, at the margin, for the largest pay-offs for their actions”.

Organizations can also “invest in socially productive economic activities (new production technologies) in redistributive activities (formation of monopolies) as well as in its own change of rules, changing thus the institutional framework under which they are operating” (North, 1990).

For North (1990), the history of societies is summarized in the evolution of its institutional matrices and its economic, political and social consequences; organizations being the main agents of change. The dynamics of the institutional matrix assumes that to maximize the return of their activities, organizations invest in political or economic activities at the margin.

As highlighted by Gala (2003) “when faced with relative price changes and preferences (or some kind of change external to the economic environment) there are options to capture new earning opportunities; rearranging the relationship of products and inputs which are dealt with, without changing the matrix so as to capture such gains from changes in the environment”.

Therefore, when operating in a market, the organization affects the social and political setting. For North (1990) that occurs when an organization interferes in the political sphere aiming to amend laws, contracts and regulations and when it does occur, there is an institutional change.

Another important concept to be discussed by the researcher is the path dependence which seeks to demonstrate how inefficient solutions can persist even if chosen by rational agents. Due to increasing returns, the choice of a less efficient technology in a given moment of time ends up becoming optimum when the system is energized. In other words, the history of the process becomes relevant (Gala, 2003).

In accordance with North (1990) self-reinforcing mechanisms occur due to four situations, namely: high set-up costs, learning effects, coordination effects and adaptive expectations.

For this researcher, the mechanisms above generate the following consequences: possibility of multiple equilibria; possibility of inefficient equilibria; lock-in and path dependence. By analyzing the design of North’s institutional theory, it can be inferred that the institutional dynamics presupposes gradual changes which alter a society’s structure of rules at the margin what is also observed by Mahoney and Thelen (2010). Theret (2003) states that the term Institutionalism seeks to “understand the actions of individuals and their collective manifestations, mediations between social structures and individual behavior. These mediations are precisely the institutions”.

According to Hall and Taylor (2003) “the term Neo-institutionalism seeks to elucidate the role played by institutions in determining the social and political outcomes”. For these researchers, there are at least three methods of analysis on Neo-institutionalism designated by the historical institutionalism school of thought, the rational choice institutionalism and the sociological institutionalism.

Theret (2003) estimates that Hall and Taylor (2003)’s research unlike contributions of other researchers such as Maggio and Powell (1997), sought to distinguish the forms of institutionalism present in certain areas of knowledge as in economy (new institutional economics) in political science (rational choice theory) and in sociology with the organizational theory.
Immergut (1998)'s analysis is added for the development of a theory which discusses the three modalities of Institutionalism previously mentioned. The main issues raised by Hall and Taylor (2003) seek to discuss how institutionalism views the relationship between institutions and the behavior of individuals and how they see the process of formation and transformation of institutions.

**Chang and Evans's institutionalist three-dimensional approach**: Chang and Evans, analyzing the institutions, highlight their role not only as a facilitator or restrictive element but also as "constitutive". That is because for the researchers all institutions have a symbolic dimension and therefore carry certain values or worldview and transmit them to people who are under their guidance. In other words as the behavior of people/agents is regulated by a particular set of institutions, organizational values are incorporated by them and as a result, change happens.

Naturally, this does not happen if the agents take restrictive attitude towards institutions and consider only the compliance with the rules because in that case, they are not "driven by values" but are in fact covered by their own interests. Thus, the researcher argues that people believe (albeit with different intensity levels among different individuals) in values that the institutions defend and as they are integrated into these values, they embody the institution's beliefs and attitudes.

For the researchers, the three approaches (restrictive, facilitator and constitutive) are not mutually exclusive. There is no inconsistency in saying that institutions are restrictive and constitutive simultaneously. And indeed, unless you identify the three aspects alongside, institutional analysis is not complete. Also, the new institutions are built from existing institutions.

They estimate that in the simplest version of the approach on institutional change based on efficiency, institutions arise when market mechanisms fail and do not allow the accomplishment of all transactions that could improve the economic system efficiency.

For Chang and Evans, in this version, the rational agents who are maximizers of wealth do not waste opportunities to improve efficiency and establish rules of conduct, aiming to maximize results. Hence, all institutions seek to be efficient.

Moreover, if there is an institution capable of improving efficiency it means that the transaction costs involved in the creation of this institution should be assessed according to the benefits for if they are greater than the benefit it produces it is not worth to be established. As a result, some of those who advocate this approach argue that in a given period of time, there may be inefficient institutions but they argue that these institutions are "disposed" in an "evolving" process. However, this evolving version also has an obvious limit. The problem is that the institutions are not by definition, easily flexible.

Institutions, in fact are a set of rules and regulations, formal and informal which govern and regulate the interactions between individuals and organizations. Accordingly, one can expect that they could be created and manipulated intentionally, in order to establish behaviors and enable the achievement of certain organizational or political goals.

Hence, the establishment and modification of institutions would follow what March and Olsen (2008) called the "Logic of Appropriateness". The researchers question how far the process of institutional change can be understood as an intentional and optimizing process? And if institutional change is not a process governed by the logic of appropriateness what would explain this process?

Historical studies on institutional change tend to focus on the importance of "critical junctures" as a starting point for rupture and innovation. In these times of crisis the agents stand out and are able to impose themselves on the pressures arising from the structure.

Critical junctures would generate changes such as "punctuated equilibrium" as advocated by True et al. (1999).

Newer models which defend the existence of path dependence processes fit in the same framework and its starting point is the presence of critical junctures guiding institutional change.

An alternative perspective was proposed by Thelen (2003) and his collaborators (Streeck and Thelen, 2005). (Mahoney and Thelen, 2010). From studies based on the trajectory of the vocational education system in Germany and in several other OECD countries, Streeck and Thelen (2005) suggest that there is much more continuity in these points of apparent rupture and more change in these periods of apparent continuity. Furthermore, it reinserts the actors in these processes of change and proposes a new look at the relationship between agency and structure in institutional innovations.

**Institutions and change in Mahoney's and Thelen's view**: Thelen (2003) presents a new theory of institutional change when criticizing the equilibrium model punctuated by True et al. (1999), to the extent that this model is founded on the fact that the critical moments, related to exogenous shocks, interrupt the institutional inertia and generate radical changes.
The researcher’s contribution is based on the fact that the institutions are path dependent and therefore, the process of institutional change is impacted by “critical moments” (critical junctures). Another argument launched by the researcher is that much of the institutional changes take place in the absence of critical moments and that in fact, the endogenous mechanisms (internal) of change are more active than those arising from exogenous shocks.

Streeck and Thelen (2005) for example, deal with the processes of change, proposing taxonomy of incremental and abrupt processes which result in the continuation or not of the institutions (Table 1).

The equilibrium model, punctuated by True et al. (1999) can be represented by the combination of abrupt change with discontinuity, resulting in rupture and replacement.

In the analysis of Streeck and Thelen (2005), there would also be three combinations of institutional dynamics, namely:

- Processes of incremental change combined with results of change aiming at continuity (Reproduction by adaptation)
- Discontinuity that is a gradual transformation (these processes were not predicted by other researchers)
- The resulting combination of abrupt change process with results of change through continuity which would lead to survival and institutional return

The researchers estimate that incremental changes can generate gradual transformations in institutions allowing a “gradual change”. Regarding the abrupt change, survival and return strategies can lead to the continuity of institutions.

For Mahoney and Thelen (2010), there are four types of gradual institutional transformations: displacement, layering, drift and conversion.

Displacement is a concept that applies to new disseminating models, challenging the existence of forms and pre-existing organizational practices. This is so due to their vulnerability to change to the accommodation posture towards new scenarios.

The change characterized by Layering amends the dynamics which continuously can replace old systems or coexist peacefully.

The concept of Drift comes from the fact that the institutional constancy is never automatic, if they remain motionless or if they trust that its reproduction is always a simple matter of positive feedback or increasing returns. Institutions require an active maintenance need to be reoriented and in some cases be reassessed and renegotiated in response to changes to the political and economic environment in which they are incorporated. If this maintenance is deliberately denied, the institution may not survive (Streeck and Thelen, 2005).

Conversion is a form of institutional change when the institutions are not very disfigured or allowed to decay since they are redirected to new objectives, functions or scopes. This redirection can happen through new environmental challenges; changes in power relations; political protests on the functions and purposes that a given institution should serve (Table 2).

Each type of change is defined by pondering about the point in which the institutional transformation takes place and the roles of agents and frequency of change as in Table 3.

In accordance with the researchers, the insurgent agents seek to eliminate existing institutions or rules and act deliberately for common knowledge. The symbiotic agents, parasitic and mutualist depend (and thrive) on institutions which are not of their own creation. The parasitic explore an institution aiming at its own profit and the mutualist symbiotic agents do not jeopardize the survival of the institution.

As for the subversive agents are those who seek to replace institutions and effectively conceal their preference for institutional change following institutional expectations and working within the system. They await their time, waiting for the right moment to be able to openly move toward an opposing stance.

The opportunistic agents are those who have ambiguous preferences about the institutional continuity. The intended action is to take advantage of all the possibilities of the dominant system to achieve their goals.

Therefore, for the researchers, the process of institutional change would have as premises a system made of multiple actors with diverse interests and unequal distribution of power; the actors interpret the institutions in different ways; preferences and interests of each actor can be ambiguous and complex.

They argue that institutions act as resources distributional instruments with implications of power, so that the institutional arrangements tend to reflect the interests of coalitions. Also, ambiguity of interests and interpretations as well as the balance of power and obedience to institutions, make room for institutional change.
Table 2: Types of institutional gradual transformation

<table>
<thead>
<tr>
<th>Definition</th>
<th>Mechanism</th>
<th>Preparation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Displacement</td>
<td>Desertion</td>
<td>Institutional incoherence making room for deviant behavior</td>
</tr>
<tr>
<td>Individual growth of previously subordinate</td>
<td></td>
<td>Active production of a new logic of action within an existing institutional</td>
</tr>
<tr>
<td>institutions</td>
<td></td>
<td>framework.</td>
</tr>
<tr>
<td>Layering</td>
<td>Differentiated</td>
<td>Rediscovery and latent institutional resources catalyzing</td>
</tr>
<tr>
<td>New elements added to existing institutions</td>
<td>growth</td>
<td>Invasion and assimilation of external practices</td>
</tr>
<tr>
<td>change their status and structure</td>
<td></td>
<td>Change in institutional results affected by a strategy which gradually</td>
</tr>
<tr>
<td>Drift</td>
<td>Deliberate</td>
<td>careless adaptation of circumstantial changes</td>
</tr>
<tr>
<td>Determined neglect of institution’s maintenance</td>
<td>negligence</td>
<td>Change in sanction of an institution, through rules which remain unchanged</td>
</tr>
<tr>
<td>Conversion</td>
<td></td>
<td>before the evolution of external conditions</td>
</tr>
<tr>
<td>Readjustment of old institutions to new purpose</td>
<td></td>
<td>Gaps between rules and their disclosure.</td>
</tr>
<tr>
<td>related to old structures</td>
<td>redirection</td>
<td>Change of contextual conditions and coalitions</td>
</tr>
<tr>
<td></td>
<td>reinterpretation</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The normal operation of an institution commits its external</td>
</tr>
<tr>
<td></td>
<td></td>
<td>preconditions.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Generalized changes modify the cost-benefit relations growth limits</td>
</tr>
</tbody>
</table>

Streeck and Thelen (2005)

Table 3: Agents of change

<table>
<thead>
<tr>
<th>Variables</th>
<th>Seek to preserve institution</th>
<th>Follow rules of institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurrectionaries</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Symbionts</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Subversives</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Opportunists</td>
<td>Yes/No</td>
<td>Yes/No</td>
</tr>
</tbody>
</table>

Mahoney and Thelen (2010)

Mahoney and Thelen (2010) also argue that “incremental change is expected to emerge in the gaps between the rule and its interpretation or between the rule and its application”. Manifestations of coalitions can provide the necessary change so that there is an institutional rearrangement that best accommodates the distribution of resources.

Agents can cause change when they interpret their situation and evaluate their resources and capabilities before the institutions. Thus, the institutional dynamics involves power struggles from the moment the actors explore their institutional positions and employ resources to win the battle if they reshape the institutional settings, degrees of discretion, according to Mahoney and Thelen (2010).

MATERIALS AND METHODS

From the point of view of addressing the problem, this research is qualitative since it seeks the interpretation of the phenomena and the attribution of meaning and it does not require the use of methods and statistical techniques (Lakatos and Marconi, 1991).

Richardson (1989) mentions that “studies employing a qualitative methodology can describe the complexity of a given problem, analyze the interaction of certain variables, understand and classify dynamic processes experienced by social groups” as well as “contribute to the process of a particular group change and enable in a highest level, the understanding of particularities of the behavior of individuals”.

For Gil (2008), the exploratory research is developed in order to provide an overview on certain fact and its main purpose is to “develop, clarify and modify concepts and ideas, aiming at formulating more precise problems or searchable hypotheses for further studies”. According to the researcher, an exploratory research involves techniques such as bibliographic and documentary survey.

Raupp and Beuren (2006) highlight some of the exploratory research purposes such as: “to provide further information on the subject to be investigated, to facilitate the delimitation of the subject of research; to guide goal setting and the hypotheses formulation or to discover a new kind of focus on the subject”.

According to the researchers “as the study becomes part of these purposes the exploratory research will be characterized”. Thus, exploring a subject means to gather more knowledge and incorporate new features, in addition to seeking new dimensions to the theme.

Gil (2008) points out that “the most important element for the identification of an outlining is the procedure adopted for data collection”.

The bibliography, according to Vergara (2003) provides analytical tools for any type of research and may present as primary or secondary source and it may also be a first or second-hand source.

For Gil (2008) the bibliographical research is “developed by material already prepared, mainly books and scientific articles”. For the researcher, “although in most studies such texts are required, there is research developed exclusively through literature sources”.

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For Raupp and Beuren (2006) the material referred to in the literature, "includes all reference already made public in relation to the subject of study from isolated publications, newsletters, journals, magazines, books, research, monographs, dissertations, theses, among others". Thus knowledge on the subject researched is gathered.

Gunther (2006) analyzing the nature of qualitative research and its main assumptions, identifies four theoretical bases: social reality is seen as construction and social attribution of meaning; the emphasis on the procedural character and reflection; the "objective" conditions of life become relevant through subjective meanings and the communicative character of social reality makes the reconstruction of the social realities construction process the starting point of the research.

These are the general characteristics of qualitative research. The first one is the primacy of the understanding as the principle of knowledge which "prefers to study complex relationships rather than to explain them by isolating variables" (Gunther, 2006). A second feature is the construction of reality. The third feature considers the research as a subjective act of construction in which theories discovery and building are objects of this approach. The fourth characteristic is that research is a text-based science that is data collection produces texts which are interpreted.

The direct source of data collection was through bibliographic review in journals indexed by Scielo and Spell bases. It is descriptive and phenomenological as it seeks to evaluate data through interactions and interpretation of the researcher.

RESULTS AND DISCUSSION

According to Gala (2003) the general theory proposed by North assumes an agents economic and social environment permeated by uncertainty which generates transaction costs. To minimize these costs, the companies develop the institutions which are a continuum of formal and informal rules whose dynamics will always be the path dependence one that is it will depend on its trajectory. It is therefore, from this matrix on that economic, social and political institutions arise. And from the interaction with the agents, financial resources and technology define the performance and the institutional development.

In these final considerations, Theret (2003)'s questioning about an institutionalist synthesis is relevant. In accordance with the researcher, "in the light of recent developments in three major poles of the new institutionalism, driven by their initial theoretical influences it is possible to think that way but we need to bear in mind that this is a simple trend always problematic and will not lead to the disappearance of the diversity of paradigms". Corroborating this position, the perception is that the new institutionalism is experiencing a period of criticism regarding its ability to describe and explain institutional change.

For Mahoney and Thelen (2010) the historical and sociological perspectives as well as the rational choice of the new institutionalism favor a look dedicated to the continuities and the reproduction of institutions although, the researchers understand that significant changes occur gradually through the accumulation of small adjustments even in apparently stable times.

Contextualizing these issues in the institutional change framework, it is possible to speculate that the engagement of the actors makes the proper interpretation cause change in the way the institution is applied, according to Streeck and Thelen (2005), Thelen (2003), Mahoney and Thelen (2010). Thus, it is clear that institutional change which come from actor's acts who search for a new configuration of the structure, result from daily practice.

CONCLUSION

The discussions presented in this study indicate approaches about gradual institutional changes which highlight the relationships between actors and the fields in which they work, highlighting in particular the role of formal rational structures and the role of the behavior of these actors.

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