


A REFLECTION ON INSTITUTIONAL ARRANGEMENTS AND ECONOMIC DEVELOPMENT IN PUBLIC MANAGEMENT

 <https://doi.org/10.56238/arev7n4-149>

Submitted on: 14/03/2025

Publication date: 14/04/2025

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ABSTRACT

The article discusses the logic of institutional arrangements in the context of the New Public Management (NGP), highlighting its influence on the formulation and implementation of public policies in Brazil after the 1988 Constitution. The objective is to understand how administrative decentralization and public-private partnerships impact governance and economic development. This is a theoretical study based on a literature review, based on authors such as North, Williamson, Coase and Gomide & Pires, seeking to identify the challenges and limitations of these institutional arrangements. The results indicate that the NGP provided greater autonomy to the municipalities and favored new forms of cooperation between the public and private sectors, but also generated difficulties in the coordination between the different actors and in the maintenance of accountability. It is concluded that, although institutional arrangements can strengthen state capacity, their effectiveness depends on the regulatory structure and administrative capacity of local governments.

Keywords: New public management. Institutional Arrangements. Decentralization. Public policies. Public-private partnerships.

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INTRODUCTION

The relationship between institutions and economic development has been widely debated in the literature, especially in the context of the New Institutional Economics. Authors such as Veblen (1988), North (1991), Coase (1937), Williamson (2000) and Putnam (1997) provide a theoretical basis for analyzing institutional arrangements and their influence on public management. Concepts such as habit, ideology, historical process, limited rationality, transaction cost, cooperation, and governance structure this discussion, allowing us to understand the transformations in the public management model.

In Brazil, the 1988 Constitution marked a significant change in public administration, introducing managerial principles that aimed to replace a bureaucratic model with a more decentralized and efficient one. This decentralization conferred greater autonomy on municipalities and encouraged partnerships between the public and private sectors, promoting new forms of governance and implementation of public policies. However, despite the advances, challenges such as the articulation between different actors, the effectiveness of governance and coordination between federative entities still persist.

In this context, Brazil has adopted a model of managerial public management, replacing bureaucratic practices with mechanisms based on efficiency and decentralization at various federative scales. This new form of management involves multiple actors, whose varied interests need to be coordinated for the effective execution of public policies.

The role of the State in the administration of institutions and in the economy is permeated by diverse ideological debates, which oscillate between conceptions of a minimal State and models of State intervention. These discussions directly impact institutional arrangements, influencing the formulation and implementation of public policies.

Given this scenario, one of the central challenges is the State's ability to coordinate and implement these policies, ensuring compliance with the administrative principles of legality, impersonality, morality, publicity, and efficiency. According to Gomide and Pires (2014), these principles reinforce the accountability process, which is fundamental for assessing the impacts of public policies.

In this context, this article seeks to answer the following question: what are the challenges and limitations of institutional arrangements in the implementation of the New Public Management in Brazil? To this end, the objectives of this study are: (i) to analyze the role of institutional arrangements in public governance; (ii) to discuss the impacts of

administrative decentralization and public-private partnerships on municipal management; and (iii) to evaluate the difficulties in the articulation between the State, the market and civil society in the implementation of public policies.

The relevance of this research lies in the need to understand how institutional arrangements impact the efficiency of public management and economic development. The study contributes to the debate on administrative modernization in Brazil, highlighting the challenges faced in the implementation of the New Public Management and pointing out ways to improve public governance. In addition, by analyzing the limitations of institutional arrangements, this article offers subsidies for future research and for the formulation of more effective public policies.

The article is structured as follows: after this introduction, the second section presents the theoretical framework about. Next, the impact of administrative decentralization and public-private partnerships on Brazilian public management is discussed. Finally, the final considerations are presented, highlighting the main findings of the research and suggestions for future studies.

METHODOLOGY

This study is characterized as a theoretical research based on a literature review, with the purpose of analyzing the institutional arrangements in the context of the New Public Management and its implications for the Brazilian public administration. The approach adopted is qualitative, focusing on the interpretation and critical analysis of the specialized literature.

The bibliographic review is based on classic and contemporary works that address the New Institutional Economics, institutional arrangements and administrative decentralization. Among the authors analyzed, North (1991), Williamson (2000), Coase (1937), Putnam (1997) and Gomide & Pires (2014) stand out, whose contributions are essential to understand the relationship between institutions, governance and economic development.

The criterion for selecting the references was based on theoretical and empirical studies that discuss the evolution of public management models and their application in Brazil. Academic publications, institutional reports and reference texts on the implementation of the New Public Management and its consequences for municipal and regional development were analyzed.

The methodology adopted allows for a deeper understanding of the challenges and limitations of institutional arrangements in Brazil, considering the different theoretical perspectives and the practical impacts of these governance models. In this way, it seeks to contribute to the literature by offering a critical analysis of the effectiveness of decentralization and collaboration strategies between the public and private sectors.

RESULTS

To understand this new scenario of possibilities and articulations of public administration, it is important to analyze the interactions between democratic institutions and development policies, identifying the institutional arrangements⁵ that guide the formulation and implementation of public policies. These arrangements play a key role in the coordination between the various agents involved, requiring a detailed analysis of their structure and application.

According to Gomide and Pires (2014), institutional arrangements and governance structures are, from an economic point of view, equivalent concepts. However, the term "governance" has been widely used to describe business relations and international political articulations, which can lead to misinterpretations. Thus, the present study adopts the concept of institutional arrangements to avoid ambiguities. Williamson (1985, 1996, 1999) contributed to this approach by establishing the theoretical framework of institutional arrangements based on the theory of transaction costs, highlighting how the organization of institutions influences efficiency in public management.

Gomide and Pires (2014) define institutional arrangements as:

[...] the set of rules, mechanisms and processes that define the particular way in which actors and interests are coordinated in the implementation of a specific public policy. It is the arrangements that endow the State with the capacity to execute its objectives. Or, in other words, it is the arrangements that determine the State's ability to implement public policies. (GOMIDE; PIRES, 2014; p. 20).

To this end, the State must have technical-administrative and political skills that allow it to articulate public and private institutions, promoting the governance necessary for

⁵ It is important to draw attention to the conceptual difference between institutional environment and institutional arrangement. According to Gomide and Pires (2014), "the institutional environment refers to the general rules that establish the foundation for the functioning of political, economic and social systems. Institutional arrangements, in turn, comprise the specific rules that agents establish for themselves in their economic transactions or in their particular political and social relations."

the execution of its objectives. This idea is represented in Figure 1, which illustrates how the analytical model of institutional arrangements works.

Figure 1 - Analytical model adopted to analyze the Institutional Arrangements



Source: Gomide and Pires (2014).

The analytical model of institutional arrangements proposed by Gomide and Pires (2014) is based on premises of North (1990; 1991), which highlight the relationship between institutions and the reduction of uncertainty in social interactions. In a democracy, the reduction of bureaucratic barriers facilitates the population's access to the rulers and reduces the costs of political transaction. However, Fiani (2013) argues that, by expanding access to decision-making centers, democracy can also multiply political transactions, resulting in higher administrative costs and making coordination between agents an even greater challenge.

This perspective, pointed out by Fiani (2013), can be understood in North (1990; 1991) from the perspective of the concept of ideology and in Williamson (1986) by the limited rationality of the agents. They highlight the selective or opportunistic possibilities that can generate new flows and, consequently, increase processes and transaction costs. Another point that may be linked to Fiani's (2013) denial in relation to the reduction of transaction costs is excessive bureaucratic processes or any other type of difficulty in the articulations between agents.

This complexity is also reflected in the difficulties imposed by excessive bureaucracy, which can compromise the effective implementation of public policies. Melo (1997), when analyzing decentralization in Brazil, points out that the low qualification of the bureaucracy, the ambiguities in public policies and the lack of clarity of transaction hinder public governance. It is observed that Melo's (1997) approach is strictly related to the political processes of public administration, which by themselves can already promote delays in flows and increase in transaction costs, thus contributing to Fiani's (2013) denial mentioned above.

North (1990) reinforces this perspective by stating that institutions exist to minimize the uncertainties inherent to human interactions, ensuring greater predictability and security in political and economic processes. In this context, North et al. (2009) introduce the concept of social order, distinguishing two forms of institutional organization: the limited access order and the open access order. In the limited access order, power is concentrated in a dominant political coalition that restricts privileges to a small group, while in the open access order there is greater political competition, promoting innovation and economic development.

North, Wallis and Weingast (2009) describe that the limited access order is defined as a political coalition among the dominant elites, which tries to control the use of force by these elites, with the distribution of privileges only among them, through the State⁶. On the other hand, according to the authors, the open access order⁷ is based on political competition with a focus on innovations, generating economic development. From this theoretical perspective, no group is capable, individually, of imposing itself hegemonically over the others, and this is the key to the stability of the system. The relative balance of forces prevents the appropriation of the State (which will be the regulator) by any group, making the creation of privileges more difficult.

This reality will be identified according to the historical processes inherited from generation to generation from the historical formation⁸ of a society (country, state, region, municipality, city, etc.). These processes of formation of the territory defined the organizations responsible for institutional feedback (formal and informal rules), formalizing belief structures and exercising the coercive power that is institutionally delegated to them to restrict behavior (NORTH, 2003, p. 6).

⁶ According to Fiani (2013), the state of nature is the hypothesis that, historically, with the increase in the size of human populations, the possibilities of intragroup conflicts have increased, which has demanded new ways of managing and controlling violence, with the State being the most sophisticated form of control. The form of control that would be most frequently observed throughout history would be the one described by North, Wallis and Weingast (2009, p. 53).

⁷ According to Fiani (2013), the foundation of the Open Access Order can be located in the way in which the exercise of violence is controlled, which, unlike the natural state, involves: the consolidation of military and police forces under the control of the political system; restrictions and incentives that limit the illegitimate use of violence by the political system; and the need for broad support in society by a party or faction to remain in power. A good example of this is the process that takes place in Brazil, under the control of judges and the Federal Police, with the action called Lava Jato.

⁸ The territorial and economic formation of a country presents different processes in its regions (ANDRADE, 2003). Built in the past, their roots are fixed in the culture, economy, politics, and society of a particular people in a specific area. In this way, the relationships between the various agents are closely linked to their territorial locality and to the tangible and intangible reflections and constraints that result from it. For this reason, geography offers important contributions to this debate.

Thus, Fiani (2013) links these theories to the definition of institutional arrangements, because, for him, the concept permeates the rules and definitions between the parties. "In this way, institutional arrangements are rules that define the particular way in which a specific set of economic activities is coordinated in a society", argues the author. Also for Fiani, an important point is the transaction cost between the various agents, as he points out:

On the other hand, the theory of transaction costs has the same focus on institutional arrangements; However, instead of assuming that it is possible to resolve in advance the conflicts that may arise, he admits that in circumstances of high complexity and uncertainty, given the limited rationality of the agents, the contracts are seriously incomplete. (FIANI, 2013, p. 24).

Obviously, these processes in the arrangements can generate uncertainties, which Williamson (1986) defines as the limited rationality of part of the agents involved, which can lead to opportunistic actions in the relationships between them. Another factor indicated by Fiani (2013) is that these processes are very complex, and therefore it is possible to have uncertainties in the contracts, generating replacement actions in the counterpart of the transaction cost. This situation will be related to the agents involved in the process; If there is a relationship of trust and competitive pressure between the parties, this can inhibit opportunistic action, especially in highly complex processes that generate great technological innovations — radical innovations.

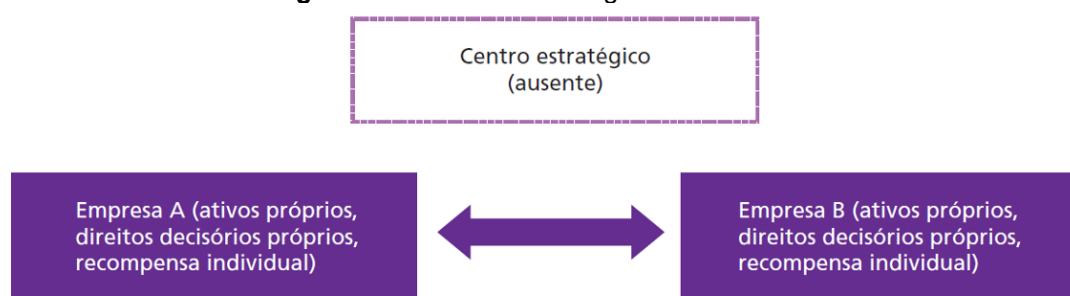
Therefore, an institutional arrangement specifies which agents are qualified to carry out a transaction, the objects of the transaction, and the forms of interaction between agents. These transactions will meet the development of the arrangement, which will be subject to the parameters of the negotiation between all parties, depending on both the locational and symbolic conditions.

This reality began to generate questions in conventional economic theory, because, according to Fiani (2013), it is assumed that there would be only one general class of institutional arrangement in the economy, which would be the market. However, the current analysis highlights the relationship between the State, civil society and the market, generating a new way of understanding institutional arrangements.

To illustrate how institutional arrangements were analyzed, Figure 2 below demonstrates how relationships work from the market. According to Fiani (2014), each company (company A and company B), when relating to the other, uses only its own

assets, has its own decision-making rights and is entitled to individual rewards. The strategic center, which is the agent responsible for coordinating the companies, is absent; In short, there is no participation of a strategic center.

Figure 2 - Institutional arrangements: market



Source: Fiani (2014).

This analytical perspective of institutional arrangements, developed by authors such as North, Williamson, Fiani, and Gomide and Pires, has indeed brought about a significant change in the way the economic system is analyzed. Before, the market was seen as the sole regulator, but with the emergence of more complex analyses, it is clear that there are other important mechanisms to regulate economic and social interactions.

Fiani (2013) points out that the economic system creates assets with a high degree of complexity and uncertainty, and it is often not possible to anticipate all the variables of future transactions with market logic alone. Williamson (1985) adds that this reality requires the development of specific actions, such as contracts, to consolidate the relationships between the arrangements. When these relationships become more complex and uncertain, the need arises for alternative institutional arrangements, called "ex post",⁹ such as hierarchy and hybrid models.

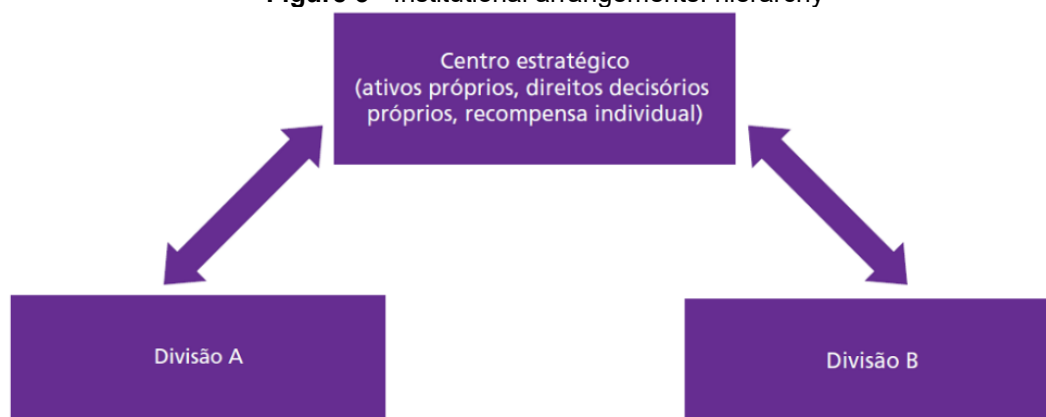
In the hierarchy, production processes are vertically integrated within companies, with centralized control, where agents do not have autonomy. Unlike the market, where there is more freedom, these institutional arrangements seek greater coordination and

⁹ Williamson (1985) defines transaction costs, categorizing them into "ex-ante" and "ex-post" costs. Ex-ante costs refer to the expenses incurred in preparing, negotiating and safeguarding an agreement. "Ex-post" costs, on the other hand, are related to the adjustments and adaptations that occur when the execution of a contract faces failures, errors, omissions, or unexpected changes. In short, these costs represent the expenses necessary to run the economic system effectively.

regulation. Figure 3, according to Gomide and Pires (2014), helps to understand how the process of arrangement in hierarchy works¹⁰.

There is hierarchy: the subordinate units have lost their own assets and decision-making rights, which are concentrated in the strategic center. In the same way, there is no longer any individual reward allocated outside the decision-making center, which brings together the responsibility of ascertaining and deciding on the gains of the enterprise. There is no way to presume a "continuous" variation between the three arrangements: their institutional and organizational reality is markedly different. (FIANI, 2014, p. 68).

Figure 3 - Institutional arrangements: hierarchy



Source: Fiani (2014).

Hybrid arrangements combine incentives and administrative controls, incorporating elements that resemble both the market and the hierarchy. This structure generates hybrid relationships that are usually long-lasting, mixing controls and incentives. According to Fiani (2013), this same combination can be found in other hybrid arrangements, such as *joint ventures*, strategic alliances, supply chains, franchises and public-private partnerships (PPPs), as well as technology parks. In hybrid arrangements, there is a mix of coordinated adaptation — similar to hierarchies — and autonomous adaptation — similar to what occurs in the market.

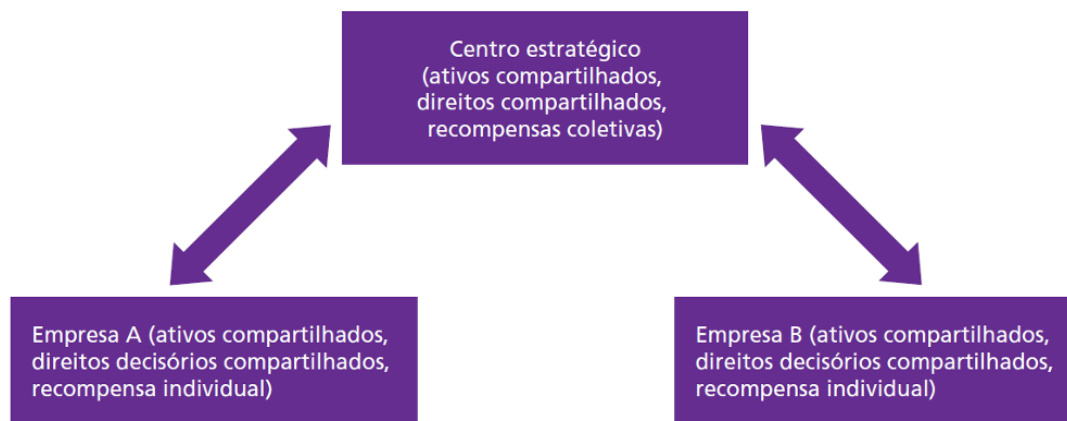
For a better understanding of hybrid institutional arrangements, we turn to Fiani (2014, p. 68), who is also the author of Figure 4, who explains how the hybrid arrangement works¹¹ and argues:

¹⁰ According to Fiani (2014), in the case of a hierarchical structure (such as a private or state-owned company), the "Strategic Center" commands the process and makes the necessary adjustments. The other agents (departments or subsidiaries of the company) are only subject to the decisions of the Strategic Center.

¹¹ Fiani (2014) mentions as an example the committee of a joint venture dedicated to research and development, whose governance structure allows some decisions to be made independently by the companies involved, while others require the agreement of all. It is up to the Strategic Center to manage incentives and administrative controls of moderate intensity,

There is a very different situation: the strategic center is present acting in the coordination of the companies involved. This is because, now, the two companies have shared assets and decision-making rights in the relationship, as well as the strategic center. The important fact, however, is that, although companies still have individual rewards, there are joint rewards whose allocation rule between firms is defined by the strategic center.

Figure 4 - Institutional arrangements: hybrid



Source: Fiani (2014).

For Menárd (2010), hybrid structures emerge as the main strategy to face the complexity of transactions, aiming to reduce transaction costs, either due to the need to coordinate related transactions or to changes in the environment of these transactions. Thus, to deal with this complexity, the parties (agents involved) can agree to share assets¹² and rights, even if it means giving up part of their autonomy in relation to the market structure. It is important to emphasize that this observation applies to relations between companies within a market, that is, to a productive sector that establishes a hybrid relationship with the public entity — the State (public power at any administrative level). This is connected to the specificity of this scientific article, which discusses the articulations between public and private power in favor of urban-regional development in a given territory, from a contemporary theoretical perspective.

preserving the relationship between agents and avoiding the depreciation of specific assets, which manifest themselves as shared resources.

¹² A technical definition of a specific asset refers to those that generate high sunk costs due to their low opportunity cost. According to Gomide and Pires (2014), in the context of "infrastructure investments", one source of asset specificity is location specificity, which stems from the fact that the value of assets is directly related to their location. This specificity particularly affects infrastructure assets; An example is a gas pipeline, whose value is impacted by the gas demand of the locations it serves. Another type of asset is the "dedicated asset", which is specific in the sense that, if the demand that originated the investment does not materialize, these assets will suffer significant losses in value – an example is the Pre-Salt area in Brazil. In addition, there are physical characteristics of the asset, which refer to what is needed to manufacture a particular piece of equipment. Finally, intellectual human capital is also considered a specific type of asset.

DISCUSSION

As already mentioned, this is one of the main points of debate in this scientific article, as it addresses how the State positions itself in this hybrid relationship (the public with the private). Initially, its objective is to develop public investment actions focused on public policies that benefit society in a given geographic area (a municipality, a state or the country). From authors who discuss this relationship, it is verified that the State, acting as a strategic center, plays a crucial role in these institutional arrangements, since they may (or may not) leverage the economic development of a specific geographic space.

According to Fiani (2013), the State occupies a privileged position to play the role of strategic center, as it usually reduces the number of agents, mitigating the necessary coordination. This action generates a reduction in coordination costs and provides a reduction in the uncertainty faced by agents, making their decisions and activities more predictable, since the negotiations (ex-ante) were developed for the construction of the institutional arrangement.

Thus, the role of the State is to develop, according to Lessa (2014), the coordination of processes in the ex-ante construction stage and in the ex-post stage, reducing the obstacles in favor of technological (transformations), social and economic development for a given region (institutional environment) inserted in the institutional arrangement.

Another important point to be highlighted by Chang (1996) apud Cyrpiano (2014) is how to evaluate the role of the State as a strategic center. The study should be based on the analysis of the sectoral institutional arrangements (which sectors were involved in the object of study) and how they positively or negatively influenced the private investments to be made, in addition to verifying the incentives of all magnitude and, finally, whether they act at the relational intensity necessary to promote coordinated cooperation between the agents of the institutional arrangement.

A final point discussed by Fiani (2013) and Menárd (2010) about the development of the State is its relationship with the private sector, which provides an entrepreneurial action. According to the authors, the State lacks a "vision of the future", that is, it lacks an entrepreneurial perspective. This characteristic is notable in countries such as the United States, which enhance incentives for innovation in various sectors of the economy through the union between the public and the private.

These actions of the State aim to act in public policy processes based on institutional arrangements, which, according to Fiani (2013), can promote a change in the

economy, moving from the "lower" Nash equilibrium to a "higher" Nash equilibrium.

Therefore, the State is often the only agent capable of performing the functions necessary for the process to be successful.

Therefore, hybrid institutional arrangements must align the technical and administrative capacity of the entities involved for better management, while maintaining control and focusing on the development of public action aimed at improving the society of a given location. This is evidenced in the work of Amsden (2007), who distinguishes between technical controls (related to resource management) and political controls (related to the achievement of policy goals).

In this sense, according to Farah (2001), institutional arrangements promote an articulation in management, leaving a model centered on isolated institutions or agencies, whose relationship with other agencies tended to subordinate. In addition, a positive aspect of these hybrid arrangements is the new form of articulation that meets the needs between the State, civil society and the market. This results in the inclusion of new actors in the formulation and implementation of public policies at the various administrative levels of public management in a given country.

Considering the importance of this relationship between the public and the private, it is necessary to highlight that the public sector, by possessing the power of the State, has hybrid institutional arrangements (the State as a strategic center) with the capacity to execute policies, as they are the ones who define the State capacities at the time of implementation of the action in a given territory, as already mentioned by Gomide and Pires (2014). The development of the action will depend on the technical and political capacity¹³ of the arrangement. The big problem arises when there is no technical or political capacity to manage the hybrid institutional arrangement. This situation must be verified on a case-by-case basis, as the logic of management is intimately linked to the historical processes of the locality, with all its significance already discussed by Veblen (1988) and North (1991) in institutional economics.

Therefore, when dealing with the State in the context of institutional arrangements, the analysis of historical experiences — as mentioned by North (1991) — is fundamental for the development of actions based on the State's capacities, as addressed by Gomide

¹³ According to Gomide and Pires (2014), it is about the ability to include various actors (social, political and economic) and to negotiate and conduct shared decision-making processes, involving conflict management and preventing capture by specific interests.

and Pires (2014). The technical-administrative dimension¹⁴ will be the key to understanding and strengthening the processes of development of action in the territory (assisted locality), generating solid bases for the implementation and development of public action (EVANS; RAUCH, 1999).

For Cury and Nascimento (2015), hybrid institutional arrangements aim to favor relations between the public and the private, creating an agile, reliable and flexible institutional environment, providing the necessary conditions for innovation and development of the territory assisted by the public action of the institutional arrangement.

Fiani (2013) highlights the great importance of institutional arrangements for the formulation of development policies, especially those that require cooperation by private agents. This management reality is corroborated by Diniz (1996, p. 23), who observes that the new international conditions include a growing complexity of the social order and "presuppose a State endowed with greater flexibility, capable of decentralizing functions, transferring responsibilities and expanding, rather than restricting, the universe of participating actors, without giving up the instruments of control and supervision".

This new paradigm offers a new reality to the Administrative Powers (Municipality, State and Federation) in Brazil, as they are federative units with decision-making power, enabling, through their articulations — their institutional arrangements — actions aimed at development. However, there are also actions that serve specific interests (opportunistic actions), which hinder the full development of public policies associated with an institutional arrangement in a given territory.

CONCLUSION

The debate on institutional arrangements and their relationship with the territory and economic development is of great importance for the current reality of public management in the Brazilian federative logics (municipal, state and federal). This relational perspective between the public and the private constitutes the "new" argumentative basis for good practices in public management, aimed at a more managerial than bureaucratic approach. All the references presented show the need for a theoretical understanding of institutional arrangements and how they can impact the economic and territorial dynamics of a given place.

¹⁴ If there is technical capacity, the development of the institutional arrangement tends to be positive; It is important to note that there are other variables that also influence the achievement of a fully positive result.

An important point, little worked on and that should be highlighted in this conclusion, is that the realities of the countries (developed and underdeveloped) must be analyzed in their entirety for a better understanding of the institutional arrangements. The logic of the globalized market generates different interferences in societies, and public actions related to policies can take place in totally different perspectives for the urban-regional development of a given territory. This can result in a management of the territory that is more focused on the potential of globalized real estate capital, with minimalist purposes for the economy and some specific sectors, that is, without concern for the totality and acting in a way that is harmful to society and the territory.

This point is not effectively addressed by the authors discussed, either because they are not part of this reality (the internationals), or because they are "stuck" to a specific reality (the nationals). It is essential that institutional arrangements are directed to serve the entire territory and not to specific niches, which often occurs in Brazil. There is a need for more practical studies on the theory of institutional arrangements in peripheral (underdeveloped) countries to materialize the real situation of articulation between entities, evaluate the results and verify whether these results are adequate for good practices of public management in the context of full compliance with the policy in a territory.

This narrative is usually related to hybrid institutional arrangements, to the relationship between public and private, which promote public actions without real concern for the totality of the respective public policy. Its main objective is to maintain a relationship with the public, aiming at specific and opportunistic strategies in the logic of capital (market) dynamics. This can be exemplified in the study by Pimentel Neto (2017), who analyzes the institutional arrangements of the 2014 World Cup in Pernambuco, where the practice was closely associated with the discourse of urban entrepreneurship and the State acting in a market dynamic of the city as a commodity.

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