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TERRITORIAL CAPITAL AS A DRIVER OF REGIONAL COMPETITIVENESS: A THEORETICAL FRAMEWORK

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The paper analyzes contemporary theoretical approaches to explaining the elements of territorial capital, which are recognized as key drivers of improving regional competitiveness. Special emphasis is placed on the decomposition of territorial capital depending on ownership structure and materiality. The paper thoroughly examines the characteristics of the elements of territorial capital, with a particular focus on their contribution to the growth of regional competitiveness. The research is based on the application of descriptive economic analysis, enriched with visual representations that depict the concept of territorial capital and regional competitiveness. Descriptive analytical tools have enabled the precise description of the essential features of various components of territorial capital, while visual representations have further enhanced the understanding and interpretation of the core concepts investigated in the study. In the course of the research, classical and contemporary sources were utilized to analyze the nature and key determinants of endogenous growth, as well as the essence of the concepts of regional competitiveness and territorial capital. A specific methodological approach was directed towards the systematization and analysis of territorial capital categories, with typological research methods predominantly employed to achieve precise classification and interpretation of relevant components. The results of the research indicate that the improvement of regional competitiveness largely depends on the efficient and effective utilization of available territorial capital. The primary task of policymakers is to facilitate networking, cooperation, and coordination among entrepreneurial and other participants in developmental processes, with the goal of creating synergies that contribute to sustainable development and regional competitiveness.

***Key words*: territorial capital, factors, policies, regional competitiveness.**

INTRODUCTION

Refining the Conceptual Scope of Regional Competitiveness (RC) is far from being fully understood (Huggins *et al*., 2014). At its most basic level, RC can be described as the success by which regions are compared to one another (Kitson *et al*., 2004). In other words, it refers to a region's potential to ensure sustained economic growth over time, including the ability to attract and retain productive capital and skilled human resources to foster innovation in the broadest sense (Vuković, 2013).

It is important to note that the conceptual scope of competitiveness encompasses issues ranging from productivity to the structure of existing markets and the nature of institutional arrangements in place (Porter, 1980; 1990). Moreover, a given territory, including a region, may feature highly competitive firms, but if these firms generate relatively low added value per employee, then the region cannot be considered competitive (Cvetanović *et al*., 2015a). This implies that the RC concept highlights the quality of life of people in a specific territorial segment of the national economy.

Capello *et al*. (2008) emphasize that the territory of a region should be regarded as an autonomous production factor, that is, as a source of both static and dynamic advantages for economic agents operating within that space. Based on this theoretical framework, the research in this paper is directed toward achieving the following objectives:

- a critical analysis of paradigm shifts in the identification of key drivers of regional growth and regional competitiveness within contemporary regional economics;

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- a conceptual elaboration of the categorical framework of the concepts of regional competitiveness and territorial capital, with particular emphasis on territorial capital as a fundamental driver of enhancing regional competitiveness in a globalized market environment;
- precise delineation of the core constitutive elements of the category of territorial capital; and
- the formulation of normative policy recommendations for regional development policymakers, grounded in the theoretical foundations of endogenous regional development theory.

The research objectives outlined in this study not only involve identifying changes in the economic realities of regions, but also imply a departure from the logic of conventional explanations for drivers of RC improvement, as proposed by neoclassical and Keynesian theories and policies. Simultaneously, the study advocates for the acceptance of the core messages of endogenous economic theory. By employing a descriptive-analytical approach and perspectives on the significance of territorial capital as a driver of RC, this paper attempts to articulate clear and unequivocal messages to policymakers for managing RC under contemporary economic conditions.

SHIFT IN FOCUS IN THE ANALYSIS OF ESSENTIAL DRIVERS OF REGIONAL DEVELOPMENT IN THE 21ST CENTURY

Economic theory has undergone a threefold shift in its perspective on the factors of economic growth (Figure 1). According to Despotovic and Cvetanovic (2017) the primary directions of these paradigm changes include:

- from developmental factors to innovative factors;
- from "hard" factors to "soft" factors, which are intangible – such as local synergy among stakeholders, effective governance, a high level of human capital, and knowledge-based assets; and
- from a functional approach to a cognitive approach, which is particularly significant in the context of the defined subject and objectives of this research (Stimson *et al*., 2011, p. 214).

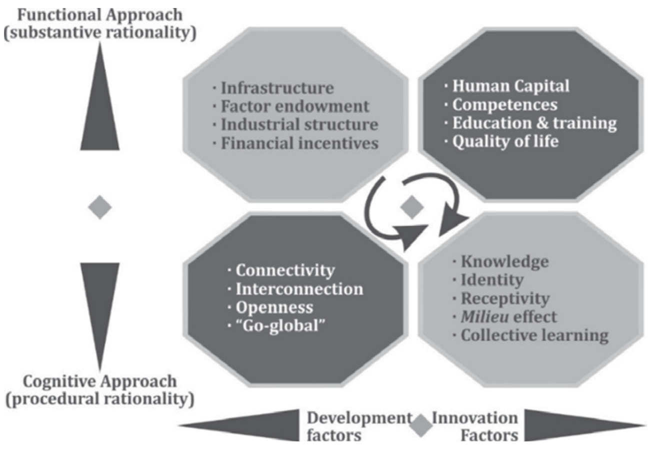

Figure 1. Changes in focus in factor analysis of regional development note
(Source: Stimson et al., 2011, p. 215, modified by the Authors)

The cognitive approach, which replaces the traditional perspective, emphasizes the importance of factors that are specific to a particular region and, as such, contribute to the ability of economic entities within the region to develop their own capacities for stimulating private and public investments. This approach is predominantly based on cooperation, trust, and a sense of belonging and connection among relevant stakeholders, rather than solely on the availability of capital. Furthermore, it highlights the significantly greater importance of creativity compared to the availability of labor, as well as the receptiveness of the workforce to new business ideas and organizational solutions, in contrast to earlier periods. Ultimately, the cognitive approach focuses more on connections, cooperation, and the quality of relationships, rather than mere availability. Particular attention is given to categories such as regional identity, efficiency, and quality of life, as analyzed in the respective region. All these elements of the cognitive approach, combined with the traditional functional approach, constitute the concept of territorial capital.

CONCEPTS OF TERRITORIAL CAPITAL AND REGIONAL COMPETITIVENESS

The concept of territorial capital was first introduced in the OECD publication *Territorial Outlook* in 2001 (OECD, 2001), and in 2005 it was incorporated into the *Commission of the European Communities* (CEC, 2005) report. This document highlights that every region possesses its own territorial capital, distinct from that found in other regions. As such, it enables greater returns within a region, as investment endeavors in that area benefit from utilizing its territorial capital in the most efficient manner possible. In brief, territorial capital refers to the set of factors within a specific geographic area that attract investments, making investments in that region more profitable with higher returns than in other areas. Essentially, territorial capital replaces the earlier term "overall development potential" of the observed area (De Rubertis *et al*., 2019). In other words, territorial capital encompasses not only material assets, but also intangible ones, contributing to a deeper understanding of the essence of regional development and RC. A high level of territorial capital enables some regions to achieve high economic efficiency and competitiveness, as well as a satisfactory degree of prosperity and living conditions for their inhabitants.

In an analytical context, the concept of RC is positioned between the micro and macro levels, implying their inseparable connection, as graphically presented in Figure 2.

The phenomenon of regional competitiveness (RC) in economic science has been studied since the beginning of the 21st century. Since then, the assessment of RC has attracted increasing interest due to the significant role of regional authorities in shaping competitiveness, as well as the dynamic potential of regions as spatial units in utilizing knowledge and attracting investments (Annoni and Dijkstra, 2017). Given the complexity of economic parameters, the concept of RC in the European context gained particular importance following the adoption of the European Union Development Strategy in Lisbon in 2000. In this document, enhancing the competitiveness of European regions in the 21st century was defined as one of the key objectives of

Figure 2. The concept of RC note
(Source: Cvetanović et al., 2015a, p. 15, modified by the Authors)

the EU's economic development. Subsequently, the evaluation of RC has become a subject of intensive research interest within the field of regional development, which is justified considering the role of regional authorities in knowledge application and investment attraction as drivers of regional development (Annoni and Dijkstra, 2017).

The approach to analyzing drivers of RC fully aligns with the approach to examining fundamental drivers of regional economic growth, not only in economically advanced countries, but also in emerging economies. Unlike traditional policies for economic growth and RC, which primarily focused on redistributing financial resources between developed and less-developed regions, the fundamental basis of the new approach to regional development management in this century lies in strengthening the endogenous potentials of regions. In the modern era, the argument that messages from endogenous economic theory serve as the most significant starting point in policies for enhancing RC is foundational for understanding this concept in the 21st century (Vázquez-Barquero and Rodríguez-Cohard, 2019). The economic crises of 2008 and 2019 further reinforced this perspective.

The literature highlights numerous approaches to classifying key drivers of RC improvement. One such approach identifies the following factors of RC: economic structure, innovation, regional accessibility, workforce skill levels, social structure, decision-making centers, and regional identity (Lengyel and Rechnitzer, 2013). The *Atlas of RC* operates with seven key variables: economic performance, employment and labor markets, education of employees, innovation, telecommunication networks, transportation, and internationalization (Eurochambers, 2007).

Some authors distinguish between the static and dynamic factors of RC. Static factors serve as the source of a region's competitive advantage based on its geographical predispositions. Dynamic factors, on the other hand, are the source of a region's evolving competitive advantage; they are not the result of a region's natural-geographic attributes but are developed over time. These factors are created and enhanced by firms and regional institutions. Regions characterized by a diverse range of factors, such as human capital, cluster organization, strong institutions, favorable geographical location, and developed infrastructure, hold stronger competitive positions. Thus, RC is based on the cumulative outcomes derived from the existence of endogenous factors within a region (Huggins *et al*., 2014).

Referring to the OECD report (OECD, 2001, p. 15), Stimson *et al*. (2011) highlight two groups of territorial capital elements. The first group includes factors such as the geographic location of the area, the size of the territory, availability of production factors, climate, tradition, availability of natural resources, quality of life, and economies of agglomeration that emerge and operate in urban areas. This group also encompasses business incubators, industrial clusters, and business networks. The second group comprises customs and informal rules that enable economic actors to operate under conditions of uncertainty, as well as solidarity, mutual assistance, and the exchange of ideas – often arising within clusters of small and medium-sized enterprises in the same sector (OECD, 2001).

This report highlights a comprehensive list of factors that function as determinants of territorial capital, ranging from traditional material to modern intangible factors (Camagni and Capello, 2013). These determinants may include geographic location and territorial "size, the availability of production factors, climate, tradition, natural resources, quality of life, or economies of agglomeration" (OECD, 2001, p. 15) that emerge and operate in urban areas of a specific region. However, they also encompass categories such as business incubators and industrial clusters or other types of business networks, which contribute to lowering transaction costs. Another set of factors includes "customs and informal rules that enable economic actors to operate under conditions of uncertainty. These include solidarity, mutual assistance, and the exchange of ideas, which often arise and develop within clusters of small and medium-sized enterprises from the same industry" (Camagni, 2008). These factors are often collectively referred to as social capital. Lastly, there exists an intangible factor, referred to as "something in the air", which can be described as "ambiance". This ambiance is the result "of a combination of institutions, rules, practices, producers, researchers, and policymakers (Camagni, 2008), which collectively create an environment conducive to creativity and innovation (Molnar, 2013).

Camagni (2009) categorized the elements of territorial capital based on a "three-by-three" matrix, utilizing two dimensions sufficient for classifying potential sources of territorial capital:

- Rivalry of goods in terms of ownership: public goods, private goods, and the intermediate class of societal and mixed public goods; and
- Materiality: tangible goods, intangible goods, and the intermediate class of so-called mixed goods.

The four "extreme" groups – those characterized by high and low rivalry between goods, as well as tangible and intangible goods – represent the traditional sources of territorial capital commonly recognized in theory and policy. These groups occupy positions within what is referred to as the "traditional square" on the schematic diagram (depicted on the left in Figure 3). In contrast, the four groups of goods classified as "mixed", rather than "pure", based on the dimensions and classification applied, represent innovative elements that require particular attention in contemporary economic contexts. These groups are situated in positions within the schematic diagram that can be identified as the "innovative cross" (depicted on the right in Figure 3).

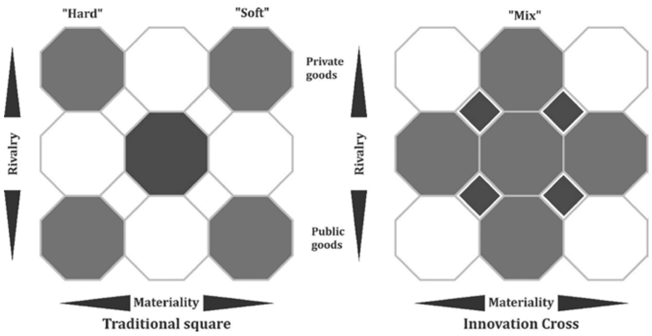

Figure 3. Traditional and innovative determinants of territorial capital note
(Source: Camagni, 2009, p. 122, modified by the Authors)

On the horizontal axis, the types of capital are sorted according to materiality. They are divided into tangible resources ("hard"), combined ("hard" + "soft"), and intangible ("soft"). Combined material resources are those that possess the ability "to translate virtual and intangible elements into concrete activities, cooperation, public-private partnerships" (Camagni, 2009), or to transform potential relationships and interactions into tangible connections between economic actors. On the vertical axis, the types of goods/capital are classified based on the nature of ownership. In this context, "rivalry" represents the inability of goods to be simultaneously utilized by multiple users.

COMPREHENSIVENESS OF REGIONAL TERRITORIAL CAPITAL ELEMENTS

Taking the elements of territorial capital presented in Figure 3 from the previous section as a starting point on the one hand, and the territory of the region on the other, Camagni (2009) provided a detailed concretization of specific elements of territorial capital, as illustrated in Figure 4.

Public goods (Segment A in Figure 4) are those goods from which everyone benefits, which are inexhaustible and indivisible (e.g., air). These goods are characterized by "two main features: non-excludability and non-rivalry in consumption. Non-excludability means that an individual cannot be excluded from using the good, while non-rivalry

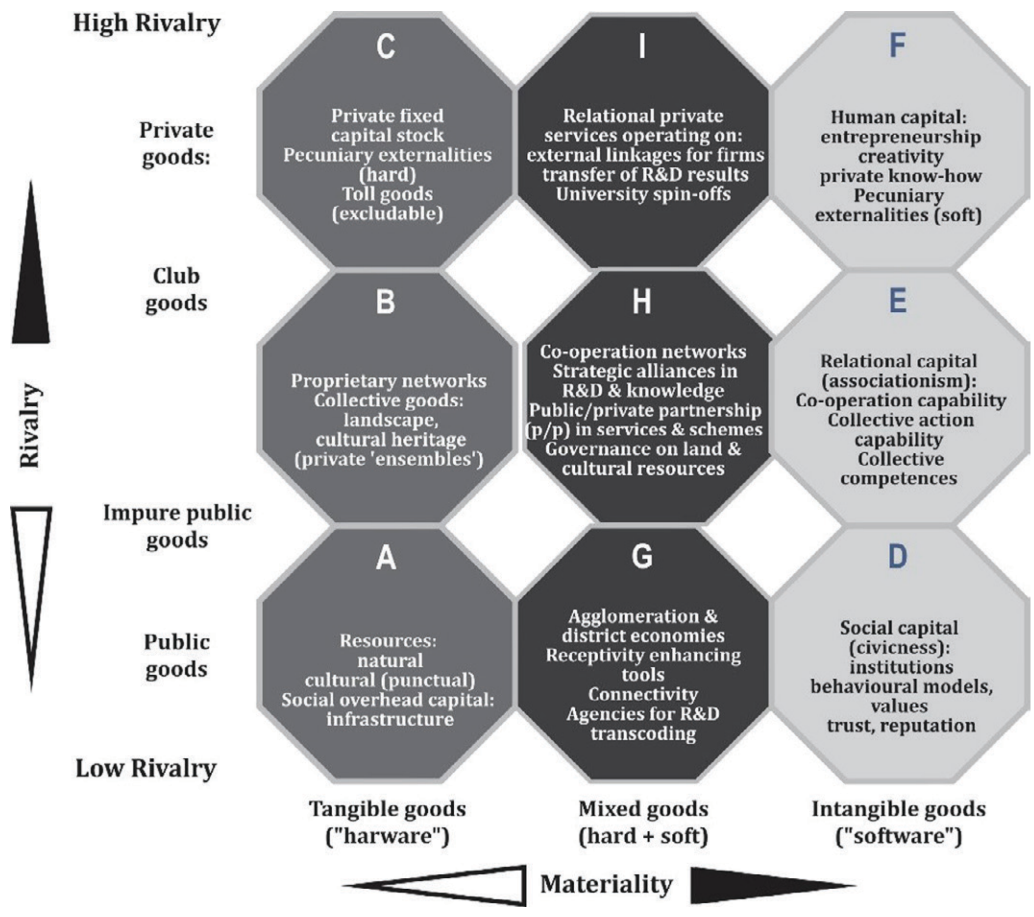

Figure 4. The elements of territorial capital note
(Source: Camagni, 2009, p. 123, modified by the Authors)

means that one person's use of the good does not reduce its availability to others" (De Rassenfosse, 2024). Public goods and resources are tangible and under public ownership (Stiglitz, 2000). Traditionally, these goods include infrastructure, natural resources, cultural, and ecological resources. They form the foundation of a territory's general attractiveness. Two main factors limit the use of these resources: availability and the increase in natural rents, which reduce profitability for those who pay for their use. Instruments that can be applied to protect these goods include improving regulations and implementing the principle that the "polluter pays" (Harris and Roach, 2021).

Mixed, or common tangible goods (Segment B in Figure 4) are essentially public goods, but there are certain restrictions on their use. These include ownership networks functioning through licensing in sectors like transport, communications, and energy; public goods exposed to congestion effects; and collective goods that combine public and private characteristics, such as urban and rural landscapes or assets of cultural heritage and identity. In a production sense, a specific territory often nurtures or constructs a territorial identity, which is then valorized through various products and services offered to users in the regional space.

Networks represent an integral component of public life, enabling actors to efficiently pursue and realize a broad spectrum of shared objectives. The literature widely recognizes networks as a fundamental precondition for the development of social capital (Stokman, 2004; Barr, 1988). Active participation in multiple networks and interpersonal relationships significantly enhances individuals' prospects of attaining specific rights or benefits in a more effective and sustainable manner (Cvetanović *et al*., 2015b).

In recent years, the literature dedicated to the study of networks and the significance of networking has experienced notable development, particularly within the fields of economic geography and regional planning (Sebestyén and Varga, 2019; Aalbers and Rossi, 2007). Networks have most commonly been interpreted as organizational expressions of globalization, especially within the framework of the thesis on the rise of the network society. In this context, the concepts of networks and networking have predominantly been portrayed as progressive and transformative categories in the social sciences and political discourse. Nevertheless, theoretical discussions regarding the implications of using networks as a social metaphor have received relatively limited attention, especially concerning their role in territorial development governance (Aalbers and Rossi, 2007). A key issue here is the dominance of conceptual approaches that overlook the structural asymmetries, inequalities, and democratic deficits inherent in existing network configurations (Hadjimichalis and Hudson, 2006).

In the case of transport, communications, and energy, public regulation is more prevalent, contributing to supply stability, protection from monopolistic pricing, quality maintenance, and network innovation. Regarding appearance, landscapes, cultural heritage, etc., regulation is often insufficient as these are resources of combined ownership, with unclear boundaries in responsibility, costs, and benefits. Numerous actors may emerge who do not wish to pay for the use of these resources or their positive effects. Therefore, private owners must cooperate with public authorities so that everyone in the locality benefits from these resources. A strong sense of belonging and connection to a locality ("territorial loyalty") can contribute to preventing opportunistic behavior toward resources through joint activity. Spatial integration and territorial loyalty, two main forces of a region's economic dynamism, have led to the formation of many business clusters (Pallares-Barbera *et al*., 2004).

Private goods (Segment C in Figure 4) primarily refer to basic assets in private ownership and public goods that require payment for use. These are traditional elements of territorial capital. As mobile capital, the locality's environment must be shaped to attract and retain these assets. This group also includes so-called monetary externalities related to private capital, such as high-quality capital goods or locally produced goods known in broader contexts (products with geographical origin). Public goods for which a fee is charged for use can also be included in this group.

Social capital (Segment D in Figure 4) as part of territorial capital, plays an essential driving role in developing and enhancing RC. Social capital is the capital of cooperation, interaction, mutual trust, and mutual assistance among people in economic processes. It cannot be privately owned and has attributes of a public good (Cvetanović *et al*., 2015). To a large extent, it represents the result of the legal, political, and institutional environment in which economic actors operate, perform their functions, and achieve goals. It is a form of capital rooted in durable and, to some extent, institutionalized relationships between individuals and organizations, fostering the creation of economic values. Some researchers argue that only people's participation in formal organizations leads to creating social capital, but contrasting views also exist, suggesting that minimal participation in social movements represents a component of social capital.

Coleman (1990), one of the creators of the concept of social capital, defines this category through its functions. He believes that social capital enables individual successes, as individuals derive benefit from it. It represents a special form of public good potentially available to everyone involved in a system of social ties and relationships. According to Putnam (1993), social capital consists of attributes of social organization such as trust, norms, "and various networks that can enhance social efficiency through coordinated action" (Liu *et al*., 2024).

Social capital comprises "institutions, relationships, attitudes, and values that govern interpersonal interactions and contribute to broader economic and social development. It is largely the result of the legal, political, and institutional environment in which economic actors operate and achieve their goals" (Cvetanović *et al*., 2015b, p. 76). Social capital is a sort of "glue" that holds communities together. For economists, social capital includes intangible assets (such as rules, habits, and relationships) that facilitate exchange and innovation processes, leading to economic growth and enhanced RC. The functioning of the market mechanism presupposes the existence of widely accepted norms, institutions, and behavioral patterns that reduce transaction costs, guarantee contract compliance, and enable the quick resolution of potential disputes.

If "additional elements of social capital" (Cvetanović *et al.*, 2015a) are considered – "a sense of belonging to a community that shares the same values and nurtures similar behavioral patterns, and the participation of the civil sector in decision-making processes" (Cvetanović *et al.*, 2015a) are crucial for community development – then localities with high levels of social capital create a "climate" that stimulates responsibility, cooperation, and synergy (Osborne *et al.*, 2007). Such a climate positively affects the productivity and creativity of individual regions (Iyer *et al.*, 2005).

Relational capital (Segment E in Figure 4) is interpreted as a set of bilateral and multilateral relationships developed by local actors, both within and beyond their local territory (Camagni *et al.*, 2011). In this context, the concept of relational capital is equated with the processes in which integrated local production systems (supply chains), local production culture, joint learning, and similar phenomena are created. Geographical proximity and connectivity are associated with social and cultural similarity – the existence of shared behavioral models, mutual trust, and common moral norms. In the context of economic theory, the role of relational capital is significant in that it greatly contributes to the quality of the mechanism for the flow of information and cooperation among all market actors. Three basic types of influence of this form of capital can be identified, through which its mentioned role is achieved:

- it reduces uncertainty in decision-making processes and innovation;
- it ensures ex-ante coordination among market actors, thereby promoting collective activity; and
- it fosters collective learning (Molnar, 2013).

Relational capital is a typical example of a mixed good, which is not public, since the benefits are available only to selected partners/actors who are located in a particular locality and possess a specific identity while sharing similar interests and values. It should be noted that relational capital holds particular importance in the domain of guarantees for fulfilling contractual obligations. Namely, when stable relations exist among partners, or interpersonal networks are in place, it is possible to completely avoid expenditures for supervision and forced execution of contractual obligations. Partners feel a special responsibility toward their collaborators, customers, and suppliers, and they do not allow themselves to violate the agreements reached, as the group they belong to can easily "exclude" them, which would have very negative consequences on their business reputation and future business performance.

Human capital (Segment F in Figure 4) has proven significance in endogenous growth theory models. However, in the context of considering the concept of territorial capital, it should be viewed differently. These are the economic effects generated within a territory through the provision of sophisticated services that imply the existence of a high level of human capital – such as financial services, marketing consulting, software services, etc. A high level of human capital within a locality is a source for creating a creative milieu where creative industries and creative individuals are located. In achieving RC, the development policy and strategy of regional human capital play a very important role. In fact, the human capital of a community is the foundation of its long-term socio-economic growth and development. Additionally, this form of capital plays a crucial role in building sustainable RC because: a) it raises the awareness of the population in a region about sustainability (ecological and social responsibility), b) it defines the legal and institutional environment of the region, and c) it demonstrates and articulates the relationships among various actors in the economic and social life of the region. Human capital generates a special resource base for the competitive advantage of a region (Jovanović *et al.*, 2018).

Agglomeration economies (Segment G in Figure 4), connectivity, receptiveness, and public development agencies are resources that possess characteristics of both "hard" and "soft" goods, and they are of a public nature. In economic terms, agglomeration refers to the clustering of multiple entities into one, most commonly an urban or city agglomeration formed by the merging of several local self-government units into one entity. The development of urban agglomerations is one of the rational forms of territorial organization, consisting of the socio-economic associations of territories and the allocation of various functions that ensure their development. Agglomeration strategies should enable territories to compete for investment and highly qualified labor, and to become more attractive places for living, working, and doing business, thereby fostering dynamic enterprise development in both specific areas and the agglomeration as a whole (Pandas, 2018). Giuliano *et al*. (2019) state that economic reasons are the fundamental explanation for the existence of agglomerations or cities. Spatial clustering provides various external benefits, such as workforce consolidation, supplier sharing, and specialization, which in turn contribute to accelerated economic growth and improved competitiveness.

By nature, these are elements of territorial capital related to:

- agglomeration economies due to the concentration of economic activities;
- connectivity resulting from physical accessibility, which individual actors use for gathering information, organizing business, and exchanging messages effectively;
- receptiveness – the ability to extract the maximum benefit from access to a locality, services, or information; and
- the existence of public agencies that contribute to the accumulation and diffusion of knowledge by facilitating and encouraging interactions between research centers, universities, and companies (Molnar, 2013).

Cooperative networks (Segment H in Figure 4) represent a key element of territorial capital, positioned at the center of the square (Figure 4), where combined ownership rights (public and private) merge with characteristics of both tangible and intangible resources. These networks integrate "hard" and "soft" resources, which are typically developed through public-private partnerships. The first category refers to strategic alliances that serve as foundations for knowledge creation and research and development activities, supported by public agencies in the dissemination and diffusion of knowledge, representing a core dimension of implementing the concept of a knowledge-based society. However, the partnership between the public and private sectors is not limited only to activities related to knowledge diffusion. The second aspect in which cooperative networks manifest as a significant element of territorial capital is their role in cooperation and coordination in the field of regional development management. This cooperation in the planning process allows the private sector to achieve profits while simultaneously enabling the public sector to remain efficient and focused on the public interest. The third key domain in which cooperative networks manifest is through a strategic approach to spatial planning and optimal land use. In all of the previously mentioned cases, the use of the term "capital" is justified, as these networks enable the accumulation and concentration of resources crucial for regional development.

Regional development requires the participation of various stakeholders, including social and economic factors that influence the regional level. Regional development networks encompass hierarchical structures, which may be characterized by the dominance of certain actors. The informal nature of these networks can lead to uncertainty in the decision-making process, which in certain cases can result in unclear and inefficient outcomes, thereby jeopardizing the functionality of the network. Leadership is critical to the success of regional development networks, but poses a challenge in the absence of formal decision-making frameworks and control structures. The attributes of networks, such as hierarchy and dominance, require detailed consideration and resolution to enhance the network efficiency and sustainability (Khodabandehloo, 2014). Interventions supporting inter-regional knowledge networks have become increasingly important tools in regional development policies, especially under contemporary economic conditions (Hadjimichalis and Hudson, 2006).

Private services (Segment I in Figure 4) refer to the presence of specialized institutions and companies within the observed territory that provide services to local businesses. These include services such as identifying business partners, suppliers, facilitating technology transfer, and lobbying services. In this context, universities within a specific locality can also play a significant role, especially in terms of collaboration with the private sector. This collaboration can manifest through specialized education for future workforce development, as well as through joint projects in the research and development of new products, technological solutions, and innovations. Such collaboration contributes to strengthening the competitiveness and sustainability of local economies.

MESSAGES TO POLICYMAKERS FOR ENHANCING REGIONAL COMPETITIVENESS

Modern economic growth policies and strategies for improving RC emphasize the importance of key components of territorial capital in driving long-term economic growth and the competitiveness of specific regions (Camagni and Capello, 2013; Orsi *et al.*, 2024). The economic role and significance of territorial capital lie in its ability to enhance the efficiency, productivity, and competitiveness of regional activities.

The considerations presented here have significant implications for defining and implementing economic development and RC policies. These policies should focus on fostering collaboration and connections between relevant actors. This approach suggests a new role for regional policymakers: they should facilitate and encourage networking, collaboration, and cooperation among both microeconomic entities and territories. Financial resources should not be directed toward individual beneficiaries but should instead fund projects that generate broader social benefits through collaboration among a larger number of market participants.

Moreover, RC policies should not solely provide financial assistance to underdeveloped areas. Instead, they should support projects that foster collaboration between developed and underdeveloped regions, ensuring mutual benefits and the availability of resources for both. Priority should be given to projects initiated by stakeholders themselves, as they are best positioned to identify their own needs and desired outcomes. This approach ensures balanced regional development, tailored to each territory's capacities, goals, and requirements, while aligning with the broader territorial organization.

Territories must recognize their role within the regional hierarchy, and to become equal partners, they must be capable of absorbing incentives and opportunities from their environment. Achieving this requires the development of nearly all components of territorial capital.

In contemporary conditions, RC takes place in the context of inter-territorial competition amid increasing complexity and uncertainty (Byrne, 2018). Consequently, new cognitive models have emerged, requiring a different approach to decision-making processes in regional growth and competitiveness policies (Martin, 2004; Capello and Nijkamp, 2019). Flexibility, partnerships among stakeholders, and iterative decision-making, monitoring, and evaluation processes characterize modern RC policies. These policies aim to enable each region to maximize its potential – developed regions continue to advance, while less developed regions activate and improve their territorial capital. This allows them to independently foster business activity through endogenous processes and absorb development impulses from more developed regions.

Such an integrative development approach combines sectoral and spatial public policies (Molnar, 2013). The effects of sectoral policies are no longer evaluated solely based on direct outcomes, such as employment growth or income levels. Instead, their impact on the overall competitiveness of the region is also considered. In summary, regional development today is understood as a complex, multidimensional phenomenon, free from illusions of simple and quick solutions that dominated earlier periods. The overarching long-term trend incorporates new elements that must be managed to guide modern territorial development policies.

According to Camagni (2008), instruments of regional competitiveness (RC) policy should be strategically reoriented in order to enhance:

- the capacity of territories to foster and internalize innovation processes;
- their adaptability to the dynamics of an increasingly volatile and interdependent global environment; and
- their absorptive capacity for new business activities, investment flows, and organizational models originating from external sources.

The importance of inter-territorial and inter-business cooperation should be emphasized, rather than merely offering financial incentives. A bottom-up development approach should be promoted over a top-down model. All components of territorial capital, and their continuous improvement, aim to create a favorable environment within a region for attracting and supporting businesses that will form the foundation of economic and social development. The quality of territorial capital determines the economic structure of a region. These components, acting together, should contribute to shaping and adapting regional economic structures to contemporary changes and needs. This approach to understanding the fundamental components of territorial capital has significant implications for RC management, focusing on fostering collaboration and connections among relevant actors. It highlights the importance of synergy creation, promoting cooperation and partnerships, and recognizing the value of local-level actor relationships, local culture, and cultural heritage, as well as social and relational capital (Todaro and Smith, 2022).

Unlike exogenous models of social development, which rely on external forces, endogenous models are driven by internal resources and processes. Endogenous development is characterized by local participation in decision-making and the trajectory of development, aiming to retain the benefits of growth within the local economy and align development with local values (Bogdanov and Janković, 2013). This underscores the importance of managing RC by leveraging local resources and fully utilizing territorial capital (Camagni, 2009).

CONCLUSIONS

RC is a relatively new phenomenon in economic science. It has only been explored since the late 20th and early 21st century (Cvetanović *et al.*, 2015a), a period that coincides with changes in the interpretation of key drivers of economic growth and regional development. Research in this area is advanced and primarily conducted in highly developed economies.

The intensity of economic growth and the quality of regional development increasingly depend on internal strengths and the competence of local development policies, rather than on external forces. A new interpretation of regional growth and development emphasizes the importance of cognitive components in fostering economic growth and enhancing RC. This cognitive approach highlights factors that improve the capacities of regional entities by increasing their sensitivity to both private and public investments, as well as their ability to respond creatively to such stimuli. It represents a departure from the Keynesian and neoclassical assumptions of economic growth, offering a better understanding of regional realities in the 21st century.

Explaining the key factors behind economic growth and RC through the lens of endogenous theories signifies a qualitative shift compared to traditional views in regional economics. The endogenous analysis of factors contributing to RC underscores the significance of non-material drivers characterized by a high cognitive content of competitiveness. One of the leading analytical categories in this field is the concept of territorial capital, which has become central to examining the drivers of economic growth, RC, and the messages conveyed by contemporary regional policies shaped by endogenous development theories.

The concept of territorial capital is founded on the belief that every locality possesses certain developmental potentials. These potentials are inherently diverse, and development outcomes need not be uniform. Territorial capital enhances RC by enabling regions to leverage their own resources, adapt to global trends, and improve their market position. However, many localities have yet to fully utilize their developmental capacities. Similarly, a significant number of once-developed areas have failed to sustain their growth by neglecting internal opportunities and external changes, leading to stagnation or decline.

The critical task is for all regions to maximize their development predispositions, improve existing capacities, and actively collaborate with more developed regions to integrate into broader territorial systems. In doing so, they must offer their unique qualities for living and working. The concept of territorial capital encompasses collaboration, trust, and networking among relevant economic actors within a given space. Understanding its essence enables regional authorities to implement incentive measures that attract both private and public investors, accelerate economic growth, and enhance competitiveness.

It is important to note that the content and scope of this concept vary across regions, reflecting their specific needs, capacities, and developmental goals. Therefore, the successful application of territorial capital principles requires tailored strategies that align with the unique characteristics of each region, fostering sustainable growth and long-term competitiveness.

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