

Institutional reforms in the Gulf Cooperation Council economies: A conceptual framework

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Abstract:

Institutions are slow to change in the Gulf Cooperation Council (GCC) economies. More to the point, institutions promoting free enterprise economy are lacking in the region. Concepts and theory building are lacking on the dynamics and forces related to institutional changes in GCC economies. In an attempt to fill this void, this paper proposes a framework for identifying clear contexts and attendant mechanisms associated with institutional changes in emerging economies. We then apply the framework in the context of GCC economies. The explanations offered in this paper shed light on the nature of power balance among various institutional actors associated with GCC economies and their cognitive frameworks.

Keywords: GCC; Institutions; Market orientation; Holistic order; Institutional entrepreneurship; Selective adaptation

Article:

1. Introduction

Institutional reforms have been slow in the Gulf Cooperation Council (GCC) economies. Although GCC regimes have agreed on the necessity to strengthen the rule of law and move towards free enterprise economy, there have been only superficial reforms (Cook, 2005, 2006). Political¹ and economic liberalizations, which are insignificant in most cases, are "reluctant", "crisis-induced" and "top-down" (Robinson, 1998). Journal of Democracy noted in October 2002 editorial: "One of the most striking features of the Third Wave of democratization has been its failure to touch the Arab world". There isn't a single full-fledged democracy in GCC and (Jamal, 2006) some new repressive institutions have also emerged (Cook, 2006).

Table 1
Some indicators related to institutions in the GCC economies

Economy	Political right index (PR, 2005–6) ^a	Civil liberty index (CL, 2005–6) ^a	Freedom status (2005–6) ^a	Seats in parliament held by women (% of total) ^b	Index of economic freedom 2007 ^c
Bahrain	5	5	PF	7.5	39
Kuwait	4	5	PF	1.5	57
Oman	6	5	NF	7.8	54
Qatar	6	5	NF	0	72
Saudi Arabia	7	6	NF	0	85
UAE	6	6	NF	0	74

^a PR, CL and Freedom status data are from the Freedom House's Annual Surveys of Political Rights and Civil Liberties. PR and CL indices vary from one to seven—a higher number indicating a more severe violations rights and liberties. In the freedom status column, PF represents "partially free" and NF represents "not free".

^b Seats held by women in a lower or single house or an upper house or senate, where relevant (UNDP, 2006).

^c Heritage Foundation/Wall Street Journal 2007 index (O'Grady, 2007). The index considers factors such as property rights protection, tax rates, government intervention in the economy, monetary, fiscal and trade policies.

GCC economies are also characterized by a symbiosis of political and economic elites (Sabri, 2001; Schlumberger, 2000). Experts argue that a genuinely entrepreneurial class, which is lacking in the region, "would be the single most important force for change in the Middle East, pulling along all others in its wake" (Zakaria, 2004). GCC economies' reform arguably "will have far-reaching implications for not only their own populations but also the entire global economy" (De Boer and Turner, 2007).

Concepts and theory building are lacking on the nature of institutions and institutional changes in the GCC region. To more fully understand institutional reforms in the region, we draw upon institutional theory. The underlying notion in this paper is that a free enterprise economy with a strong rule of law and property rights is likely to benefit not only the GCC society but also the global economy. We make two contributions to the literature in this article. First, we extend institutional theory to the context and limit of the GCC region. Second, we provide insights into the pattern of institutional changes, which has been an important but under-examined issue (Campbell, 2004). Note that institutions arguably have a higher propensity to change when they are characterized by contradictions which “create conflicting and irreconcilable incentives and motivations” (Campbell, 2004, p. 186). Nowhere is this characteristic more evident than in the GCC region.

In addition to the theoretical contribution, policy makers and managers can gain in multiple ways by a deeper and richer understanding of GCC region's institutions. An understanding of the formative dynamics of the attitudes and priorities of GCC leaders could help Western policy makers devise strategies to bring desired institutional changes. Second, a deeper understanding of the functioning of GCC decision makers, as they mediate institutional reforms in the region through their attitudes and priorities, both economic and political, is of profound interests to managers.

There are some well-founded rationales for and against doing business in the GCC region as well as a number of misinformed and ill guided viewpoints. Many foreign investors, for instance, see the GCC region as a breeding ground for terrorists and underestimate the region's importance (Lee, 2005) despite its GDP of over \$750 billion (John, 2007). This paper's insights could help global investors, multinationals and economic planners understand institutions in GCC and devise better strategies to operate within the region.

Before proceeding, we offer some clarifying definitions. The Gulf Cooperation Council was established in 1981 by the six conservative Arab Gulf monarchies (Table 1). By institutions, we mean the “macro-level rules of the game” (North, 1990) which include formal constraints such as rules, laws, constitutions and informal constraints such as social norms, conventions, and self-imposed codes of conduct (North, 1996, p. 344). Likewise, we define a progressive change as one that is conducive to free enterprise economy. In a regressive change, on the other hand, behaviors conducive to free enterprise economy are suppressed and additional “ceremonially warranted” behaviors are introduced to secure the suppression (Bush, 1994). Free enterprise system, free enterprise economy and capitalism² are used interchangeably to refer to an economic and social system in which the means of production are mostly privately owned and a market economy operates, that is, decisions are influenced by competition, supply, and demand (Schrems, 2004). Intrinsic to this definition is also the existence of rule of law and property rights. We use the term ‘government’ to refer to the “set of ruling politicians who are policy makers” (Bloch, 2003). Bureaucrats, on the other hand, are “the higher, nonelective officialdom of government” (Kohn, 1971). The government enacts rules and regulations while bureaucrats are expected to follow rules. Theoretically bureaucrats can be controlled by the government through laws and by specifying the details of implementation (Long and Franklin, 2004).

In the remainder of the paper, we first provide a brief survey of institutions in the GCC region. Next, we review the theoretical foundation and develop propositions. Then, we apply the propositions in the GCC context. The final section provides discussion and implications.

2. A survey of institutional environment in the GCC region

GCC rulers with Western education or those with Western-educated advisors have introduced substantial institutional measures. In Kuwait, Western-educated members, who gained posts in the cabinet, introduced an economic package in 2001 to attract foreign investment (Kuwait Country Review, 2006). Similarly, Sheik Mohammad, the crown prince of Dubai, who has played a critical role in modernizing the country, has a team of Western-educated economic advisers (Molavi, 2004). GCC regimes are also facing institutional reform pressure from citizens with access to Western style education (Salame, 1993). Some notable examples include Kuwait's first open political party formed by Western-educated liberals (Washington Post, 1991), protest by Western-educated Kuwaiti women during the 1992 Election (CSM, 1992) and candidacy of 28 women – mostly

Western-educated – in the 2006 parliamentary elections (Wheeler, 2006); and Saudi intellectuals' petition to the king in 2003 calling for a constitution and bill of rights (Ignatius, 2003).

Notwithstanding some institutional reforms in GCC economies, a close look indicates a lack of substantiveness. For instance, in most cases, holding elections³ is the only measure taken to promote democracy (Sachs, 2004) and the elections tend to be merely “rubber-stamp affairs” (Hudson, 2002; Jamal, 2006).

Institutional reforms attempts in the region are facing various roadblocks. At the Forum of the Future's 2005 meeting of the intergovernmental initiative for reform in the broader Middle East, Bahrain, Oman and Saudi Arabia supported Egypt's approach to restrict independence of NGOs (Gershman and Allen, 2006). In Saudi Arabia, women were allowed for the first time in 1999 to attend sessions of the Shura as observers. The Shura's chairman, however, reminded that Islam denies women's right to public offices (Economist, 1999). Overall, the country's institutional reforms speed has been slow (Lotenzetti, 2002). Likewise, in Bahrain, the King emphasized the necessity to resume democracy (Dorsey, 2002), but critics doubt whether democratic moves are genuine (Kéchichian, 2004). Those challenging the rulers to engage in dialogues were banned from public gatherings (Kéchichian, 2004). In 2005, authorities closed a leading human rights organization (Cook, 2005). A leader who called on the Prime Minister to resign for human rights violation and failure to restore growth was arrested. Clubs such as Bahrain Centre for Human Rights, General Organization for Youth and Sports and Al-Uruba are viewed as cultural establishments and barred from political activities (Kéchichian, 2004).

To take yet another example of institutions shifting into reverse gear, consider Kuwait. In the early 2000s, more women were wearing the veil than in the past and university classes were segregated by gender (Kristof, 2003). While the rulers are in favor of empowering women, there have been oppositions from the Islamic groups (Haussen, 2004). These groups also voted against women's right to vote on social and religious grounds (Wheeler, 2006). While Kuwaiti rulers promised “genuine democratization”, the progress has been “insufficient” (Siddiqi, 2001).

Unsurprisingly, GCC economies, and Arab in general, scored the lowest in a comparison of legal reform across the world's regions (Carothers, 1998). Likewise, while business climate in the region was above the world average and it outperformed other emerging markets on indicators related to infrastructure and some institution dimensions, the region stood second last to Africa on market orientation (EBFR, 2006).

The International Country Risk Guide (ICRG) index, which considers political, economic and financial indicators, is probably the most comprehensive indicator to study institutional changes. During the 1990s, the region narrowed the ICRG index gap with East Asia and surpassed sub-Saharan Africa. Yet, having said this, it is apparent, too, that natural openness is driving the ICRG index. Controlling for factors such as trade interdependence and locations, GCC region is behind East Asia on policies oriented openness (Elbadawi, 2005). Observers refer the 1990s as “the lost decade” for GCC economies (Power et al., 2005) and argue the importance to enhance institutional quality by emphasizing on accountability in government practices, strengthening the rule of law, and controlling bureaucracy and corruption (Azzam, 1999; Reed, 2001). Although there has been an increase in FDI inflows, it can be attributed to attractiveness of the oil industry rather than to institutional reforms (BMI, 2006).

Like most developing countries, GCC states implemented import substitution policies for several decades (Hertog, 2007). Economic reform measures' speed has been slow (Lotenzetti, 2002). Institutions promoting free enterprise system and free enterprise economy are thus severely lacking in the region (BMI, 2006; Carothers, 1998). It is argued that big businesses' wealth in the region can be attributed to “feudalism” rather than capitalism (Zakaria, 2004).

3. The theoretical framework

3.1. Substantive/symbolic nature of the governments' reform measures

We begin by considering the nature of the government's institutional reform measures. Note that the

government is in a special position to create market institutions, change the legal rules and enforce private actors' behavior (Groenewegen and van der Steen, 2007). In the GCC region, free enterprise economy are not fully institutionalized as these ideas are not “uncritically accepted” and are not considered to be “natural and appropriate” arrangements (Greenwood et al., 2002, Tolbert and Zucker, 1996). The government, thus, has to appease actors with disparate purposes and conflicting interests (Brint and Karabel, 1991; Hoffman, 1999; Greenwood and Hinings, 1996) such as bureaucrats, entrepreneurs, financial, corporate and economic elites; intellectuals, opinion makers, religious spokespersons, multinationals, foreign governments, international agencies, interest groups, labor unions and ordinary citizens.

Isomorphism is positively related to legitimacy (Deephouse, 1996). Organizations able to acquire legitimacy from external actors are likely to gain resources as well as maintain control over the environment (George et al., 2006). Put differently, an organization can increase its chance of survival and/or growth by engaging in actions that are approved by powerful actors (Aldrich, 1999; Baum and Oliver, 1991; Meyer and Scott, 1983; Newman, 2000; Ruef and Scott, 1998; Sitkin and Sutcliffe, 1991). When actors with conflicting demand are to be appeased and served, however, a decoupling helps decision makers retain credibility and minimize cognitive dissonance (George et al., 2006). Different theoretical contributions and various empirical studies have led to the accepted view that exact nature of decoupling is a function of relative powers of competing institutional interests (March and Olsen, 1989; Oliver 1991; Zajac and Westphal, 1995). These studies provide support for the notion that substantial responses cannot be made to appease actors opposing diametrically. The substantive response relates to the threat or opportunity associated with the more powerful actor and the symbolic response relates to the threat or opportunity associated with the less powerful actor (George et al., 2006).

3.2. Institutional change agents

Up to this point we devoted this section to understand the contexts and mechanisms associated with the government's institutional reform measures. It would be erroneous, however, to assume that government is the only actor associated with institutional changes. More broadly, it may be helpful to consider the roles of institutional change agents or institutional entrepreneurs.

A growing number of studies have suggested that institutional entrepreneurs challenge or disrupt particular models of social or economic orders and construct new organizational fields (Bartley, 2007; Clemens, 1993; Daokui Li et al., 2006; DiMaggio 1989; DiMaggio and Powell 1991; Schramm, 2006; Svejenova et al., 2007). They “lead efforts to identify political opportunities, frame issues and problems, and mobilize constituencies” and “spearhead collective attempts to infuse new beliefs, norms, and values into social structures” (Rao et al., 2000, p. 240). They also engage in activities related to deinstitutionalization (dissolution of existing logic or governance structure) as well as institution formation, which entails the birth of a new logic or governance structure (Scott, 2001).

Institutional entrepreneurs come in many shapes and sizes. In China's town–village enterprises (TVEs), some bureaucrats became ‘bureau-preneurs’ and acted as institutional entrepreneurs (Bouckaert, 2007). In GCC economies, some examples of institutional entrepreneurs include Western-educated professionals (Ibrahim, 2004), Western-educated liberals who formed Kuwait's first open political party (Washington Post, 1991), Kuwaiti women groups who protested during the 1992 Election for their voting right (CSM, 1992), women candidates in Kuwait's 2006 elections (Wheeler, 2006); and Saudi intellectuals, who submitted petition to the king in 2003 calling for a constitution and bill of rights (Ignatius, 2003).

Institutional entrepreneurs' “subject positions” need to be dominant that can allow them to gain wide legitimacy, bridge diverse stakeholders and compel other actors to change practices (Hoffman, 1999; Maguire et al., 2004). It is important for them to mobilize external and internal constituents, have financial resources (DiMaggio, 1989; DiMaggio and Powell, 1991; Holm, 1995) and be able to communicate with other institutional actors in the system so that their initiatives are perceived favorably (Groenewegen and van der Steen, 2007).

Theorization or “the development and specification of abstract categories and the elaboration of chains of cause

and effect” is an important process through which institutional entrepreneurs facilitate the diffusion of new ideas (Greenwood et al., 2002:60). Theorization provides rationales for the practices to be adopted and thus increases the likelihood of acceptance of the practice (Strang and Meyer, 1993). Two key elements of theorization concern framing and justifying. Framing focuses on the need for change and justification is value of the proposed changes for concerned actors (Greenwood et al., 2002; Maguire et al., 2004).

3.3. Selective adaptation

A related point is that the social, political and economic contexts can constrain actions that the government and institutional entrepreneurs can undertake (Fligstein, 2001). The idea of selective adaptation can be very helpful in understanding this dynamics. Selective adaptation entails balancing local needs with pressures of compliance with practices (institutional reforms) imposed from outside. Selective adaptation is typically framed as a process by which exchanges of non-local rules across cultural boundaries are mediated by and interpreted in terms of local practices, conditions, imperatives and norms (Potter, 2001).

The nature of selective adaptation is a function of perception, complementarity, and legitimacy (Potter, 2004). First, the processes and results of selective adaptation depend on how policy makers and other institutional change agents perceive the “purpose, content and effect” of foreign and local institutional arrangements (Potter, 2004). Complementarity describes a situation in which seemingly contradictory phenomena can be combined so that they reinforce each other effectively and at the same time essential characteristics of each component are preserved (Bohr, 1963; Potter, 2004). Legitimacy concerns the extent to which local communities support the purposes and consequences of selective adaptation (Weber, 1978). The effectiveness of selectively adapted legal forms and practices depends to an important degree on local acceptance (Potter, 2004). Institutional reforms pressures, for instance, may face opposition by actors benefiting from the existing institutional arrangements (Burns and Nielsen, 2006).

3.4. Dependent variables

Our dependent variables are related to changes in formal and informal institutions. As noted above, the state is the most important institution and powerful driver of institutional change, since violations of laws and regulations can result in harsh sanctions (Bresser and Millonig, 2003; Groenewegen and van der Steen, 2007). Our first dependent variable thus concerns the degree of substantiveness of the government's reform measures, which is influenced by resource dependence, power, and pressure facing the government. This variable is associated with formal institutions. We consider a symbolic action as an action with a low degree of substantiveness.

National legal systems, especially in developing countries, are, however, far from effective in directing organizational and individual behaviors. Edelman and Suchman (1997) note: “the legal rules “cause” the organizational practices (or vice versa) is, at best, a gross simplification”. The second dependent variable – progressive/regressive changes – captures institutional changes that are not directly associated with the state and thus deals with a wider social contexts and constraints. Government's reform measures alone cannot capture the “power relations in society” (Huber and Stephens, 2001, p. 13) and “social and cultural concerns” (Warner and Daugherty, 2004). Broadly speaking, this variable focuses on informal institutions and thus allows us to deal with underlying and contributing causes of institutional changes—not merely the symptoms. It is important to note that informal rules also provide legitimacy to formal rules (North, 1994). Axelrod (1997, p. 61) observes:

Social norms and laws are often mutually supporting. This is true because social norms can become formalized into laws and because laws provide external validation of norms.

3.5. Explanatory variables

The “triple embeddedness” thesis (Boettke and Storr, 2002) guides the selection of explanatory variables. The gist of the thesis is that in determining institutional changes, it is important to examine “the interaction and nested nature of the economy, polity, and society” (Boettke et al., 2007). To put things in context, elements of political institutions such as democracy and the rule of law and the nature of the civil society are tightly linked

with business climate (Boettke et al., 2007; Kéchichian, 2004). This is because formal institutions determine entrepreneurial success and a “vibrant civil society” allows individuals to benefit from formal institutions’ “weak” ties rather than relying on informal institutions’ “strong” ties (Boettke et al., 2007).

Society-related variables included in our analysis are the nature of social organizations—“the holistic order” and “the extended order” and the society’s orientation towards the West (e.g., the presence of Western-educated leaders, technocrats and citizens). Polity-related variables include the government’s dependence on businesses and on Western countries. Finally, resource-based economic development is an economy related variable.

3.6. Some propositions

3.6.1. The "holistic order" and the "extended order"

Institutionalists and historians have provided a valuable lead into the question of why institutional change rates vary across economies. Institutions’ propensity to change can arguably be described with two ideal types of social organizations—“the holistic order” and “the extended, functionally differentiated order” (see Zweynert and Goldschmidt, 2006). A holistic society is often characterized by an ideology, mostly in the form of a religion, that “claims validity for all spheres of action and thought” and an action’s legitimacy is evaluated on the basis of a “general binding moral prescripts imposed by a superior authority” rather than by economic, political or juridical logics (Zweynert and Goldschmidt, 2006). To take an example, conservative Islamist factions such as Islamic Salvation Front view Islam “as a holistic order whose societal organization is perfect and does not allow individual beliefs” (Zoubir, 1996). In some cases, the ideology concerns the value system (e.g., ‘Asian Values’) (Chang et al., 2006).

As noted above, the government and institutional entrepreneurs engage in selective adaptation of foreign practices. This means that practices incompatible with local conditions and norms are less likely to be introduced (Potter, 2001, 2004). In a holistic society, selectively adapted practices become ineffective because they lack legitimacy or local communities’ support (Weber, 1978). The government’s and institutional entrepreneurs’ attempts to bring changes may face difficulty going beyond pre-institutionalization. Note that in pre-institutionalization economic and technical factors are important while a broad institutional support is needed to move beyond this phase (Barringer and Milkovich, 1998; Meyer and Rowan, 1977).

Institutions may also go in the backward direction or old practices are “reinstitutionalized”. In reinstitutionalization, a strong institution “loses ground in relation to competing institutions for some time, and then later reappears on the scene” (Soderbaum, 2000). In a holistic society, framing and justification needed for reinstitutionalization of old practices are relatively easier. The “merchant capitalism” thesis, for instance, suggested that a dominant direction of change in the former Soviet Union would be “backward” or towards a primitive merchant capitalism rather than a free market-based capitalism (Burawoy and Krotov, 1992).

The heterogeneity in institutional reforms in Europe is explained in terms of religious-secular differentiation. Orthodox countries in Eastern Europe lacked the religious-secular differentiation that existed in Western Europe (Pipes [1971] 1992; Buss, 2003). Reformers in the early 1990s attempted to radically change formal political and economic institutions. However, in Orthodox countries, which are closer to the holistic end in the holistic-extended continuum, informal institutions did not change at the same rate as formal institutions (Warner and Daugherty, 2004). In line with these arguments, the following propositions are presented:

P_{1a}. Compared to an extended society, the government and other institutional change agents in a holistic society are less likely to take substantive institutional reform measures inconsistent with the ideology which binds the society together.

P_{1b.1}. Compared to an extended society, in a holistic society, institutional reforms inconsistent with the ideology which binds the society are less likely to undergo progressive changes.

P_{1b.2}. Compared to an extended society, in a holistic society, institutional reforms inconsistent with the ideology

which binds the society are more likely to undergo regressive changes.

3.6.2. Western-educated leaders, technocrats and citizens

A growing number of studies have suggested that governments controlled by “coalitions with strong internationalist links” tend to carry economic reform measures early and consistently (Stallings, 1992). Evidence consistent with this proposition has emerged from Mexico, Thailand and Korea in the 1980s; as well as from the Middle East (Glasser, 1995; Marr, 2003). Such internationalist coalitions are typically dominated by “sophisticated technocratic teams with extensive foreign training and experience” (Stallings, 1992).

Actors with internationalist links exist at various levels of the political and social structure. Leaders and politicians with internationalist links at the highest level of policy making are more likely to take reform measures compared to those without such links (Glasser, 1995). Western-educated leaders such as Morocco's King Mohamed VI and Jordan's King Abdullah seem to be more open to reforms than most Arab leaders (Coleman, 2004; Hamid, 2005).

At the next level, bureaucrats help precipitate institutional changes by directing attention and providing supports and resources (Duerst-Lahti, 2002; Long and Franklin, 2004). There is growing recognition that internationalist links provide technocratic and educational expertise necessary for reform (Stallings, 1992). Technocrats with extensive foreign training and experience are more open to Western style reforms (Stallings, 1992).

But there is another point that is perhaps even more important. Outsiders lack a wide legitimacy and thus can do little to bring changes (Almond and Verba, 1980). Some governments also oppose institutional reform pressures from outside. Morocco's King Mohammed VI put the issue this way: “Self-reform is an internal process. Just as we refrain from giving lessons to others, we will not tolerate being told what to do. No one ... shall impose their views on us” (Fattah, 2005). Maguire et al. (2004) note: “[L]egitimacy must be broadly based; a narrow set of attributes that resonates with only one group of actors will not mobilize the wider cooperation that is needed to bring about change”. Western-educated technocrats' subject position allows them to acquire a wide legitimacy and bridge diverse stakeholders. As “insiders”, institutional reforms supported by them may possess a high “face validity” (Tolbert and Zucker, 1983). They are thus expected to play a forefront role for changes (Hess, 1995). They generate positive externalities to contribute to progressive changes. The above leads to the following:

P_{2a}. The presence of Western-educated leaders, technocrats and citizens in a developing economy is positively related to the government's institutional reform measures.

P_{2b}. The presence of Western-educated leaders, technocrats and citizens in a developing economy is positively related to progressive institutional changes.

3.6.3. The government's dependence on businesses and a merger of economic and political elites

Political institutions tend to have “built-in biases” that systematically favor specific classes (Amenta, 1998; Hicks, 1999; Huber and Stephens, 2001; Jenkins et al., 2006). In a discussion of “class forces” (Jenkins et al., 2006) and state-level policies of developing economies, businesses deserve special attention. The capital-dependence theory argues that governments that are constrained by the need to generate private investment face structural pressures to adopt policies favoring businesses (Lindblom, 1977; Offe, 1984; Block, 1987; Jenkins et al., 2006). Prior research indicates that governments with capital dependence are likely to adopt pro-business policies even without businesses' pressures (Peterson, 1995; Grant, 1995).

Rulers' control over economic decision-making influences the success of a reform (Haggard and Kaufman, 1995; Ozel, 2003). In an economy characterized by a high degree of dependence of the government on domestic businesses, the businesses can exert a strong grip on state policies. What seems to be happening in such economies is businesses regulating the state rather than vice versa (Boron, 1995; Ozel, 2003; Skene, 2003).

Governments failing to direct efforts towards buttering up businesses may face severe consequences. Ukraine's oligarchs had close ties with Leonid Kuchma's government. In 2004, the businessmen's favor gravitated toward the opposition candidate Viktor Yushchenko, who benefited enormously (Way, 2005a, b). On the other hand, the literature also documents evidence of governments' ignoring interests of businesses with a low economic importance and lacking "veto points" (Hicks, 1999; Huber and Stephens, 2001). Jordan, which depends on foreign aid and the government is the direct aid recipient (Brand, 1992; Roberts, 1991), offers a case in point. The state allocates investment and employs 50% of the workforce (Reiter, 2004).

Of equal importance in the discussion of the government-businesses nexus that follows below is bureaucrats' involvement in businesses. A cohesive "reform team" is a defining feature of a successful reform (Haggard and Kaufman, 1995). A growing body of literature highlights bureaucrats' roles in reform. For instance, in China (Pei, 2006), Russia and Eastern Europe (Shevtsova, 2004; Thomas, 1997), the most important barrier to transition to a market economy centered on Communist Party bureaucrats' resistance. Likewise, Mexico's agricultural reform plans faced a resistance from the bureaucracy (Teichman, 2004).

Theoretically the government can control bureaucrats through laws and by specifying the details of implementation (Long and Franklin, 2004). If there is a "symbiosis between economic and political elites" (Hermann-Pillath, 2006), where political/elite entrepreneurs take advantage of positional power to maximize economic rewards (Hankiss, 1990; Staniszkis, 1991; Stoica, 2004), institutional reforms adversely affect bureaucrats' utility function (Oleinik, 2006). Moreover, as is China's case, bureaucrats, who are also capitalists, may "buy" agents to penetrate into the government apparatus (Chen, 2002). Bureaucrats are thus against deinstitutionalization of existing institutions or formation of new institutions. One thus would not expect the government to take substantial reform measures that go against bureaucrats' interests. Based on the above discussion, the following propositions are presented:

P_{3a}. A regime's dependence on domestic businesses for resources is negatively related to substantiveness of institutional reform measures.

P_{3b}. In an emerging economy, bureaucrats' involvement in businesses is negatively related to substantiveness of the government's institutional reform measures.

P_{3c}. In an emerging economy, bureaucrats' involvement in businesses is negatively related to progressive institutional changes.

3.6.4. Dependence on Western countries

As noted above, selective adaptation is a function of how policy makers perceive the "purpose, content and effect" of foreign and local institutional arrangements (Potter, 2004). The content of Western countries' institutional arrangements in administering aid and loan affects developing countries' reforms. Western countries, especially the U.S., and international agencies such as the International Monetary Fund and the World Bank have governance criteria⁴ in aid and lending decisions (Krasner and Pascual, 2005). The U.S. has helped friendly regimes develop into "regional showpieces of globalization" and provided with military support (Economist, 2002).

In highlighting the role that dependence on aid can play in institutional reforms, consider the Middle East. From this standpoint, there are two groups of economies. The countries of the first group (Tunisia, Morocco, Egypt, and Jordan) have benefited from foreign aid and have been consistent in implementing reforms. The countries of the second group (post-1981 Syria, Iran and Sudan, the pre-1994 Algeria, and the pre-2003 Iraq), on the other hand, were hostiles to the U.S. and resisted reforms (El-Said and Harrigan, 2006).

The countries in the first group, which desperately needed aid, met WTO entry requirements in record time (El-Said and Harrigan, 2006). Ironically, it is the aid that remains a major motivation behind reforms. For instance, a main benefit of joining the WTO highlighted by Jordanian officials was the "massive aid" that the country

would receive (El-Said and Harrigan, 2006). The U.S., the EU and Japan provided assistance to “ease the pain and political costs” of reform (Pfeifer, 1999). Thus, we propose that:

P₄. A developing economy's dependence on Western countries is positively related to the substantiveness of the government's institutional reform measures.

3.6.5. Ability to achieve economic development without reforms

Economic performance is positively related to a regime's legitimacy (Fish, 2002). The economic performance—legitimacy nexus is stronger for authoritarian regimes than democratic ones (Fish, 2002). While some view authoritarian regimes' economic performance based legitimacy as “superficial” (Pei, 1999), such a strategy is producing results for some rulers. A reform-based growth may produce complementarity for authoritarian regimes as essential characteristics of both authoritarianism and reform exist side by side (Bohr, 1963; Potter, 2004).

“Performance legitimacy” is a phrase used to describe a justification for political repression by governments delivering high growth (Acharya, 1999). Poor economic performance, on the other hand, may result in the loss of legitimacy (Bacon, 1986; Cooper, 1996; Remmer, 1996; Zhao, 2000). Asia provides a robust example of “performance legitimacy”. Most of the past and present authoritarian Asian regimes (e.g., Singapore, Malaysia, and China) acquired legitimacy through high growth (Chang et al., 2006; Pei, 1999). In China, the base of regime legitimacy is shifting from MarxLeninism to growth (Chen, 2002; Zhao, 2000). Chinese leaders have set economic growth as the top priority (Zhao, 2000). In Indonesia, Suharto's legitimacy was based on people's improved living standards (Chowdhury and Paul, 1997). In sum, if an economy performs well, institutional entrepreneurs face difficulty in communicating the need for change (framing) and value of the proposed changes (justifying). It is proposed:

P₅. An authoritarian government in a developing economy that is able to achieve (resource based) economic development is less likely to take substantive institutional reform measures compared to a government that is not able to achieve such a development.

Table 2
Tentative propositions on institutional reforms in GCC economies

Propositions (effect on institutional reforms)	Construct used as an explanatory variable	Effects on the government's substantiveness of reform measures	Effects on progressive/regressive institutional changes
1a (-)	The “holistic order” of the society	<ul style="list-style-type: none"> ● Economic and political logic for reform may face difficulties. The government may be unwilling to take substantive reform measure. 	
1b.1–1b.2 (-)	The “holistic order” of the society		<ul style="list-style-type: none"> ● Institutional changes processes that are against the “general binding moral prescripts” face resistance.
2a (+)	The presence Western-educated leaders, technocrats and citizens	<ul style="list-style-type: none"> ● Open to Western style reforms and can influence policy makers to take substantial measures. 	
2b (+)	The presence Western-educated leaders, technocrats and citizens		<ul style="list-style-type: none"> ● Support to reform measure. ● Externality effects
3a (-)	The government's dependence on businesses	<ul style="list-style-type: none"> ● Governments that are vulnerable to capital dependence are likely to adopt pro-business policies. 	
3b (-)	Bureaucrats' involvement in businesses	<ul style="list-style-type: none"> ● The government may not take substantial reforms that go against bureaucrats' interests. 	
3c (-)	Bureaucrats' involvement in businesses		<ul style="list-style-type: none"> ● Institutional reforms may adversely affect bureaucrats' utility functions. They may be unwilling to direct attention and provide supports and resources to reforms.
4 (+)	Dependence on Western countries	<ul style="list-style-type: none"> ● Pressures to bring institutional reforms. 	
5 (-)	Ability to achieve economic development without reforms	<ul style="list-style-type: none"> ● The regimes can hold their citizens at bay by providing some welfare. ● Institutional entrepreneurs may face communicating need for change (theorization). 	

4. Applying the framework in the GCC region's context

In this section we translate the above propositions within the context and limits of the GCC region to shed light on the nature of power balance among various institutional actors associated with the region and their cognitive frameworks (Table 2).

Table 3
Political and religion landscape of GCC economies: major highlights

Economy	Political	Religious	Remarks
Bahrain	<ul style="list-style-type: none"> Started political liberalization in 2002. In a referendum, the electorate voted to create a parliament and an appointed Majlis al-Shura.^a 2005: Closed leading human rights organization.^b 	<ul style="list-style-type: none"> Political Islam moderate; Islamist groups dominate the parliament.^a 	<ul style="list-style-type: none"> GCC economy with the least oil reserve and thus is forced to liberalize the economy.
Kuwait	<ul style="list-style-type: none"> Most political power with the ruling Sabah family.^c Ahead of most GCC economies on reform.^{d,e} 	<ul style="list-style-type: none"> Five women (a Christian, a Jew) are appointed to the Shura Council.^a Religious fundamentalism is increasing.^c 	<ul style="list-style-type: none"> Influence of Saudi Arabia becoming stronger.^c
Oman	<ul style="list-style-type: none"> 1996: "Basic Law"—provided a Bill of Rights, guaranteed freedom of the press, encouraged religious tolerance, insisted on an equality of race and gender.^f 	<ul style="list-style-type: none"> Constitution is "grounded" in Islamic tradition.^g The Sultan convened a Majlis al-Shura, or Consultative Council^h (Miller 1997). 	<ul style="list-style-type: none"> Critics claimed that the 1996 initiatives were the results of the 1994 attempted coup.^{i,j}
Qatar	<ul style="list-style-type: none"> 2003: Qataris (including women) voted and approved a new constitution—called for the establishment of a parliament.^{k,l} First gulf state to permit unrestricted free press.^m 	<ul style="list-style-type: none"> Follows strict Wahabi sect of Islam (like Saudi Arabia) but has been more flexible in religious ideology.ⁿ 	<ul style="list-style-type: none"> Critics argue that the new constitution institutionalized the absolute power of the emir and his family.^b
Saudi Arabia	<ul style="list-style-type: none"> Shura: king appointed and only representative institution.^p Considering letting male citizens elect regional councils.^l 	<ul style="list-style-type: none"> The Shura's chairman reminded that Islam denies women's right to public office. 	
United Arab Emirates	<ul style="list-style-type: none"> Moderate political culture.^o 	<ul style="list-style-type: none"> No religious extremism. Tolerance for other religions.^o 	<ul style="list-style-type: none"> Moderate foreign policy.^o

^aKéchichian 2004; ^bCook 2005; ^cKristof 2003; ^dCarothers 1998; ^eLa Porta et al. 2004; ^fSiegfried 2000; ^gecil 2006; ^hMiller 1997; ⁱBeasant 2002; ^jKatz 2004; ^kSachs 2004; ^lZakheim 2005; ^mJanardhan 2006; ⁿLee 2005; ^oEconomist (1999).

4.1. The "holistic order" and the "extended order" (P1a–P1b)

A common thread that runs through institutional reforms measures in GCC economies is that they tend to be closer to symbolic end in the symbolic-substantive continuum. In this regard, an important point to bear in mind is that many of the consumption habits associated with global capitalism are considered to be "antithetical" to Islamic ethical traditions (Heftier, 2006).

From the standpoint of institutional reforms in GCC, the most relevant issue concerns the notion of a holistic society. As noted above, conservative version of Islam views Islam "as a holistic order whose societal organization is perfect" (Zoubir, 1996). This emphasis is echoed in other recent perspectives on Islam (Ali, 2000; Kadir, 2004, Zuhur, 2005). The secular/religious distinction is less likely to exist in Islam. To take one example, whereas Western governments do not provide assistance to religious related charities, there is no such restriction in some Islamic governments (McKenzie, 2007). The Islamic mission (da'wa) in Saudi Arabia, for instance, is state-sponsored (Kerr, 2000). Islam has propagated "a holistic conceptualization of life, embracing politics, economics and society" (Kadir, 2004). Zuhur (2005) observes: "Extremists exploit the common misunderstanding of Muslims' holistic view of life; everything is religion and everything is Islam; financial, social, intellectual, theological, military, and political".

The upshot of these tendencies is that institutional changes that go against Islam's logic face resistance. Citizens "view the tenets of Islam as inherently democratic" and perceive no distance between Islam and democracy (Jamal, 2006). They express simultaneous support for democracy and Islam. In these economies, a significant amount of time is devoted to Islamic instruction in educational institutions⁵ (Rugh, 2002). Religious and cultural influences make educational reform a sensitive topic (De Boer and Turner, 2007). Islam is thus providing a foundation for the politics of GCC economies (Haass, 2006; Zakaria, 2004). In the ideological arena, Islamic World is one of the notable exceptions (Chang et al., 2006) to the observation that democracy is the "spirit of the times" (Linz and Stepan, 1996). Ergil (2000) makes an intriguing argument as to how Islam's holistic nature influences politics:

The rhetoric of religious movements refuses to recognize the autonomy of politics and instead attempts to put the state under the control of religion. Such religious movementsleave no room for cultural, intellectual or ideological differences.

Islam's influence is readily apparent in businesses and economics. Islamic economics, which differs from Western capitalism by several measures, claims that Islam provides an “all-encompassing model for social, economic, and political life” (Heftier, 2006). Commercial shariah, for instance, differs drastically from Western business laws in several notable respects (Khan, 2006). It is probably hard to imagine democracy in the GCC region involving English common law, which is likely to bring a disruption in the society (Zakheim, 2005).

Islam's holistic order has been a barrier to Western style institutional reforms and a driving force behind regressive changes in GCC economies. This pattern is powerfully illustrated in Shura's chairman's argument against women's right to public offices in Saudi Arabia (Economist, 1999), ban from political activities of clubs such as Centre for Human Rights, the General Organization for Youth and Sports and Al-Uruba in Bahrain (Kéchichian, 2004) and Islamic groups' oppositions to empower women in Kuwait (Hausen, 2004). Note that in Oman, Qatar and Bahrain, on most political issues, the monarchs are arguably “more liberal than the societies over which they reign” (Zakaria, 2004, p. 1). For instance, deliberations in the Bahrain parliament focus more on social than political issues (Kéchichian, 2004).

The absolute monarchies possessing both religious and political power also benefit from the holistic order (Howe, 2005) (Table 3). Accordingly, most GCC rulers lack accountability (Carothers, 1998), can survive through repression, cooptations and manipulation (Lust-Okar, 2005) and maintain control over opponents (Hudson, 2002). Beyond all that, being a “reformist” by complying with the West is an unpopular option for GCC rulers. For instance, in the Arab world, Qatar is perceived as “little more than an American military base” (Kéchichian, 2004; Power, 2003).

4.2. Western-educated leaders, technocrats, intellectuals and citizens (P5)

Many old GCC leaders are not open to social, technological, and economic ideas (Harman, 2007). Western-educated GCC leaders, on the other hand, are bringing institutional reforms (Waldman, 1994; Marr, 2003). For instance, Western-educated Qatari Emir Sheikh Hamad introduced the country's first popular elections in 1999, which also allowed women to vote and run for office (El Sawy, 2004). He has a team of Western-educated advisers. Unlike most Arab rulers, Western-educated GCC rulers or those with Western-educated advisors seem to emphasize more on economic gains than on political order. Such a pattern is powerfully illustrated in Kuwait's introduction of an economic package in 2001 to attract foreign investment (Kuwait Country Review, 2006) and Sheik Mohammad's measures to modernize Dubai (Molavi, 2004).

Western-educated GCC technocrats are “energetic, well disciplined, and competent” and open to reforms (Marr, 2003). They are viewed as “the wave of the future” and “a credible basis on which to build democracy” (CSM, 1990). They have become important institutional change agents or institutional entrepreneurs. In 1991, mostly Western-educated Kuwaiti liberals formed the first open political party (Washington Post, 1991). In 2003, 104 Saudi intellectuals, many of them Western-educated, presented a petition to the king. The petition, “A Vision for the Present and Future of the Homeland”, called for a constitution and bill of rights (Ignatius, 2003). It proposed an elected legislature; local and regional elections; an independent judiciary; and a guarantee of “freedom of expression, association, assembly, the right to vote and to participate, as well as.. human rights”. It urged the king to confront corruption, bribery and power abuse and argued that a constitutional monarchy would help counter Muslim extremism (Ignatius, 2003).

Reform also depends on populations with a democratic culture (Harik, 1994). Citizens with a strong desire of democratic participation are likely to exert pressure for progressive changes. During the 1992 Election in Kuwait, groups of women – mostly Western-educated – protested against their exclusion from voting (CSM, 1992). Similarly, in the 2006 parliamentary elections, women were allowed to vote and there were 28 women candidates. Many of them were Western-educated and played important roles in the society (Wheeler, 2006).

4.3. The government's dependence on businesses and a merger of economic and political elites (P2a–P2c)

While some degree of nepotism is involved everywhere, influences of favoritism, nepotism, and personal connections are more readily apparent in GCC (Atiyah, 1992). Such a tendency can be attributed to the culture

(e.g., strong kinship ties and obligations to family and friends) (Izraeli, 1997). Lewis (1995) goes even further, saying: “In the Arab world nepotism has none of the negative associations it has in the West”. Speaking of the Middle East, Khashan (1997) observes: “Corruption and nepotism [prevails], and the concept of the state [isn't] fully understood...as a guardian and representative of individual and community interests”.

To understand the infancy of capitalism in the GCC, it may be helpful to consider shared mutual interests between merchant and ruling families (Rumaihi, 1986; Al-Haj, 1996). Big businesses play influential roles in political decision making and remain a strong anti-reform force (Friedman, 1997; Schlumberger, 2000). Note too that management principles of these businesses have a very few elements of Islamic economics (Heftier, 2006).

In Saudi Arabia, the royal family entered in businesses from the 1960s and have benefited from the status quo (Sabri, 2001). Similarly, in Oman, the Sultan received resources to run the state from merchant families and provided them with institutional favor as well as security and protection (Al-Haj, 1996). For the ruling elites, the ‘arbitrary’ application of business laws provides an important access to resources (Schlumberger, 2000). Zakaria (2004) summarizes this dynamics: “There is a dominant business class in the Middle East, but it owes its position to oil or to connections to the ruling families. Its wealth is that of feudalism, not capitalism, and its political effects remain feudal as well”.

There has also been a colossal increase in bureaucrats' involvement in business⁶ (Schlumberger, 2000). Bureaucrats thus discourage policies favoring institutional reforms and outside investments (Atkine, 2006) and remain a strong anti-reform force (Friedman, 1997). Pollock (2002) noted: “It's just that bureaucracy, corruption and uncertainty make it difficult to build a business bigger than a market stall”.

4.4. Dependence on Western countries (P₃)

Some GCC governments depend on Western powers, particularly the U.S., for external security as well as on technology and economic fronts (Hudson, 2002). For example, the U.S. provides Saudi Arabia with defense against external threats⁷ (Bronson, 2006). Saudis have used the U.S. as a “shield” to counter external threats (Seznec, 2005) and U.S. troops protect ruling sheikhs' oil fields (Peterson, 1997). The Saudi–U.S. relationship grew to include the exchange of U.S. technology for Saudi cash (Seznec, 2005). While there is some evidence of U.S. influence on societal practices and institutions in Saudi Arabia (Seznec, 2005), it is largely symbolic.

Unsurprisingly, compared to many developing economies, GCC economies are less dependent on the West. GCC regimes' responses with respect to Western powers and foreign multinationals are largely symbolic. Indeed, GCC states face virtually no pressures from OECD countries. For instance, the U.S. has relied on Saudi Arabia to provide a longterm oil supply and is unwilling to push the Saudi regime for institutional reforms (Seznec, 2005). At the same time, the Saudis are “unbribeable and unmaneuverable” (Rosner, 2007). Hanson (2006) notes:

Because of its dependency on Middle East gas and oil, Europe's high talk about human rights doesn't apply much to Arab extremists with energy-rich patrons in the Gulf. America is in a war against Islamic fascism, yet treads carefully around Saudi Arabia, despite the kingdom's subsidies to America-hating madrasahs.

4.5. Ability to achieve economic development without reforms (P₄)

Most GCC governments' ideologies entail different forms of nationalism (Rhodes, 2006). Economic failure erodes a government's legitimacy and fosters an ideological vacuum, as old ideologies (e.g., nationalism) are perceived as failures (Richards, 2002). Falling oil/gas production and growing youth unemployment are among powerful factors pushing reform in GCC economies (De Boer and Turner, 2007). Unsurprisingly achieving growth has been a top agenda (Dhonte et al., 2000, UNDP, 2002; World Bank, 2003; Elbadawi, 2005). In this regard, oil revenue's impact on institutional changes deserves special attention.

Oil and gas account for 70% of government revenue in the GCC economies and over 80% for Kuwait (Lancaster, 1998). By meeting their economic expectations and providing some welfare GCC regimes reduced resentment toward them. They have been able to hold their citizens at bay (Ates, 2005). As it happens, a major reason behind GCC economies' poor performance on the institutional reform front is the region's lack of interest in attracting FDI. They have large current account surpluses and are net capital exporters (EBFR, 2006). While reform is producing complementarity effects for some Asian authoritarian regimes, GCC governments have been able to deliver growth without reform.

Unsurprisingly, economic and financial crises have induced an appetite for reforms (Bahgat, 2006). When oil price declined in the 1980s, GCC regimes offered a wider political participation to “buy social peace” (Robinson, 1998). In 1998, the then Kuwaiti Oil Minister put the issue this way: “The ...decline in oil prices may be a blessing in disguise... Although it has been difficult for us to do in the past politically, may be we can search for alternative sources of income” (Lancaster, 1998). When oil prices were low in the early 1990s, Kuwait and Saudi Arabia moved towards economic reforms. Kuwaiti government discussed about turning the country into a free trade zone while “acknowledging the need to prepare their citizens for painful changes” (Lancaster, 1998). Then Kuwaiti Oil Minister went on saying: “Every walk of life has been subsidized... We have to see how we're going to work through this” (Lancaster, 1998).

Kuwait and Saudi Arabia were thus searching for new solutions or were in the pre-institutionalization phase of reform. During pre-institutionalization, economic and technical factors play dominant roles in actors' decisions (Barringer and Milkovich, 1998). Decision makers at this phase engage in “plan making, team forming, agenda setting, and base building” (Giloith and Moe, 1999). Broad institutional support rather than economic and technical efficiency is, however, critical to move beyond pre-institutionalization (Meyer and Rowan, 1977). With increased oil price and the absence of such a support, the whole reform process pretty much stopped right there (Bahgat, 2006, Friedman, 2006; Robinson, 1998).

Among GCC economies, per capita oil and gas production is among the lowest for Bahrain (De Boer and Turner, 2007), which is arguably the most diversified GCC economy (Lancaster, 1998). It has a history as an important financial centre (Ford, 2004). It took substantive measures (e.g., extensive banking sector reform) to attract industries such as ship repair and financial services (Lancaster, 1998).

5. Discussion and implications

A major contribution of this article is to examine the influence of economy, polity, and society related factors on governments' and institutional entrepreneurs' willingness to undertake institutional change measures and on progressive and regressive changes associated with other institutional actors. As is the case in many authoritarian regimes, GCC rulers have been able to acquire “performance legitimacy” by meeting their citizens' economic expectations. Unlike many developing economies, they do not need foreign aids and loans. The oil-based growth has also reduced their dependence on FDI. This means that GCC economies are less dependent on pro-reform actors such as foreign multinationals, Western governments and international agencies and are taking only symbolic responses to these actors' pressures. Second, merchant families, royal entrepreneurs and elite entrepreneurs, who have an extremely close and mutually advantageous relationships with the government and are benefitting from the status quo; and government bureaucracies have been a strong anti-reform force in the region.

A third, and for our purpose, the most important aspect of GCC is “the holistic order” of the society, which tends to shift power balance towards anti-reform groups. Institutional change processes that go against Islam's logic face resistance. Islam's influence is readily apparent in politics (e.g., perception of no distance between Islam and democracy) and in business (e.g., commercial shariah). Moreover, Islam has provided credibility and added legitimacy to GCC regimes because of absolute monarchies' possession of religious power (Howe, 2005).

The preceding discussion has important managerial and policy implications:

5.1. Implication 1: the principle of minimal dislocation

The above analysis indicates that transition to Western form of capitalism is a big jump from the current institutional arrangements of GCC economies. Prior research indicates that progressive institutional changes are sustainable only if there is a “minimal dislocation”. Put differently, the incorporation of a new “instrumental” behavior must have a minimally disruptive effect in the community (Bush, 1994). In this regard, transition of GCC businesses to the principles of Islamic economics is likely to be a more feasible option than to Western form of capitalism.

5.2. Implication 2: bricolage or complementarity as a strategy to operate in GCC economies

Combining components from the existing institutional environment and reorganizing them strategically – also known as bricolage (Campbell 2004) – is an important way to operate in the GCC region. Western financial institutions, for instance, operate in the GCC region according to the principle of Commercial shariah and have helped boost GCC regimes' performance legitimacy by bringing jobs and FDI in the region. This approach can also be viewed as complementarity (Bohr, 1963; Potter, 2004) as two seemingly contradictory phenomena (Western institutions' capitalism and Commercial shariah) are combined and essential characteristics of each component are preserved.

A related point is that institutional change measures that don't pay attention as to how they are embedded in the “wider institutional field” (Lawrence et al., 2002) or “networks of other already legitimate institutions” (Suchman, 1995) are likely to fail. For instance, in Eastern European economies, reforms were unsuccessful because of insufficient attention to “social and cultural concerns and the institutional framework” (Warner and Daugherty, 2004). As to a collaboration's potential to bring institutional changes, Lawrence et al. (2002) argue that generation of protoinstitutions – “new practices, rules, and technologies that transcend a particular collaborative relationship and may become new institutions” – is essential. Paying attention to the “wider institutional field” is even more crucial in holistic societies of GCC.

5.3. Implication 3: minimizing political and bureaucratic interferences in businesses

Political and bureaucratic influences (Atkine, 2006; Pollock, 2002; Schlumberger, 2000) have hindered businesses' success in GCC region. In this regard, we can borrow a page from the Chinese experience. For instance, Chinese government's exercise of power over its firms in a “chaotic way” has hindered Chinese firms' success overseas as well as on the home front (Gilboy, 2004). Nolan and Yeung's (2001) study indicated adverse effects of political and social pressures on M&A activities of state-owned steel firms. Success of businesses in GCC economies hinges on minimizing political and bureaucratic interferences in businesses.

5.4. Implication 4: decline in production/price of oil as a jolt to the existing institutions

The interesting question for GCC region is what factors could give a jolt to the existing institutions. Decline in production and/or price of oil is probably the single most important force that can threaten GCC regimes' “performance based” legitimacy. As noted above, in the early 1990s, Kuwait and Saudi Arabia were at the pre-institutionalization phase but subsequent increased oil prices reduced their incentives to take substantive actions to move towards full institutionalization of reforms. In the current interaction pattern of institutional actors in the GCC context, decline in oil price is likely to shift the power balance in favor of pro-reform actors such as foreign multinationals and Western governments.

5.5. Implication 5: Western-educated leaders and technocrats as agents of institution change

Western-educated leaders and technocrats have introduced and facilitated reform measures. If a GCC economy with internationalist coalition develops as a reformist showcase economy, other GCC regimes may consider reform as a “natural and appropriate” arrangement (Greenwood et al., 2002; Tolbert and Zucker, 1996). Note that currently being a “reformist” is an unpopular option in the Arab world (Kéchichian, 2004).

5.6. Implication 6: need for pro-reform actors to be organized and vocal

It is an accepted axiom that losses are felt more deeply than gains. Pro-reform constituents tend to be “generally unorganized, silent, and nearly invisible politically” whereas anti-reform actors are “frequently organized and

vocal” (Kikeri and Nellis, 2004). Most obviously, the political process is likely to respond to those with “voice” (Kikeri and Nellis, 2004). In GCC, pro-reform actors such as political parties, interest groups and unions need to be more organized and vocal.

5.7. Implication 7: substantiveness of reform measures

Based on the discussion above, gradual progressive institutional change can be expected. For instance, reform has been at least a stated goal of GCC regimes (Carothers, 1998). Although measures on this front are symbolic for most GCC regimes, they may produce results over time. Theorists have discussed how symbolic changes at one point of time may lead to substantive changes over time (Campbell, 2004; Edelman, 1990; Guthrie, 1999; Oakes et al., 1998).

Future research based on the present framework can be extended to other cultural settings. For instance, what are the similarities and differences in terms of changes in institutions and market orientation between the GCC, Eastern Europe and Asian economies? For instance, Political and elite entrepreneurs are prevalent in the GCC region, Eastern Europe and China. The sources of legitimacy of these entrepreneurs, however, may differ across countries.

In future research scholars should also attempt to conduct research that provides insights into GCC regimes' cognitive assessment of the powers of various institutional actors. For instance, from the standpoint of GCC regimes, what are the perceived relative powers of ordinary citizens, religious leaders, merchant families, international institutions, etc? How does the power of an institutional actor change over time?

Notes:

1 Our focus is on free enterprise system/economy (economic freedom). However, studies have found that economic freedom and political freedom “typically go hand in hand” and are highly correlated (La Porta et al., 2004).

2 We specifically refer to managerial capitalism, which Chandler (1990) considered of superior form and advocated.

3 For instance, people in Oman have voted for city councils, parliaments, and government advisory boards, Qataris approved their first constitution in a national referendum and Saudi Arabian rulers are considering letting male citizens elect regional councils (Sachs, 2004).

4 The U.S. has created a Millennium Challenge Account (MCA), which has strict standards related to governance and economic reform measures for recipients (Brainard, 2003; Giragosian, 2006; Krasner and Pascual, 2005; Sperling and Hart, 2003).

5 In Bahrain and Kuwait, about 10% of total class hours are devoted for Islamic instructions. In Saudi Arabia Islamic instruction consumes 32% of class time for grades 1–3 and decreases for higher grades (about 15% for grades 10–12). The figures for Qatar are 8–17% (Rugh, 2002).

6 These include families of the heads of state, the upper strata of bureaucracy and governmental institutions, leaders of the ruling parties and the top ranks of the military establishment and security services.

7 Since the kingdom no longer faces threat from Iraq, analysts think that the Saudis may soon ask the U.S. to withdraw from their country.

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