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**FDI in the KSA: Institutional Determinants of British Multinational
Enterprises' Location Decisions**

**A thesis submitted in partial fulfilment of the requirements of the
Manchester Metropolitan University for the degree of Doctor of Philosophy**

**Faculty of Business and Law
Department of Management**

By

Nasser Mohammad Alshareef

February 2018

Acknowledgements

First and foremost, I must thank Allah, the Almighty, for enabling me to complete my PhD journey.

I would also like to express my deep and sincere gratitude to my extraordinary supervision team. Firstly, Prof. Hamed El-Said has been instrumental in showing me the way and guiding me to become an accomplished researcher. I would also to thank him for giving me the opportunity to work under his supervision in my PhD study, and for his constructive guidance, suggestions, invaluable comments and support. Secondly, I offer special thanks to Dr. Agnieszka Chidlow for her knowledge, help, invaluable comments, support, guidance, suggestions and encouragement during my PhD journey.

My profound respect and thanks also go to the Saudi Government for providing me with the opportunity to carry out the current research, I appreciate their support and encouragement.

I would like to express my sincere thanks to my colleagues and friends at Manchester Metropolitan Business School, in the city of Manchester, and in the KSA, for their support throughout my PhD journey.

I would also like to thank my family for their invaluable support and encouragement. My wife has provided me with much needed assistance, enabling to study the long hours required to complete this research. Also, a deep debt of gratitude goes to my parents whose unconditional love has always been there for me during my academic journey.

Last but not least, I would like to thank all the government organisations which cooperated with me through the data collection phase of my research, with a special thanks to all the participants from British MNEs in the KSA for their cooperation in the completion of this research.

Declaration

The work in this thesis has not been submitted as an application for any other qualification or degree to any other university or institute of learning.

Conferences publications

Alshareef, N. (2016). Institutional Determinants of British MNEs in the KSA. *In proceedings of: 5th International Conference on Trade, Business, Economics and Law. University of Oxford, St. Hugh's College, Oxford, United Kingdom, 9th-11th May 2016.*

Alshareef, N. (2016). FDI in the KSA: Institutional Determinants of MNEs. The Saudi Ministry of Higher Education. *In proceedings of: The 9th SSC -UK. International Convention Centre, Birmingham, UK. 13th-14th February 2016.*

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Abstract

This study investigates the determinants of British Foreign Direct Investment (FDI) institutional avoidance, adaptation, and co-evolution factors leading to determinations to enter in the Kingdom of Saudi Arabia (KSA) for investment purposes. More specifically, by British Multinational Enterprises (MNEs). For the purposes of stability and sustainable growth in the KSA, FDI is required in both imports and exports to promote a variety of industries. This research seeks to identify what institutional factors are being adapted and valued by British MNEs currently operating in the KSA. There is a need to understand the various factors that encourage FDI inflows into nations, and why different countries are often successful when compared to others, when attracting this important investment tool. The study provides answers to the questions regarding which factors positively and/or negatively affect the decision of British MNEs to locate in the KSA. The research demonstrates that many key factors considered as being important in other countries have also played a significant role in the decisions made by British MNEs in the KSA. The study asked firms about the obstacles they found when entering the KSA for the purposes of FDI. The results of the research indicated that most of the institutional determinants are largely analogous for all host countries, yet further research is required to ascertain if religious and cultural differences have more of an impact in the KSA due to its strong, deep rooted cultural and religious beliefs.

This study is among one of a few focusing on institutional determinants of British MNEs location decisions in the KSA. Despite the numerous advantages of FDI in different countries such as Singapore, China, and Malaysia, little research has been done on FDI in the KSA (Roberts and Almahmood, 2009). Hence, it is hoped that this study will provide a useful contribution to existing research by filling this current dearth. In the KSA, some factors have been identified that lead to a low inflow of FDI. They include; Business regulatory consistency in dealing with the government; Bureaucracy; Cronyism (Wasta) and Enforcement by the legal and judicial system. The major contribution of this research is to have a clear understanding of the effects of institutions on the FDI policy and in doing so, help to fill the existing lack of literature in this area. Furthermore, the recommendations from this study may be considered as a referential basis for concept development and institutional reforms which can be used by governmental agencies promoting FDI such as the UKTI, the SCIT and the SAGIA.

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List of Nomenclatures

ARAMCO	Arabian-American Oil Company
BERI	Business Environmental Risk Intelligence
CASCO	California Arabian Standard Oil Company
CIT	Committee for International Trade
CITC	Communications and Information Technology Commission
CME	Coordinated Market Economy
CSC	Council of Saudi Chambers
CSR	Corporate Social Responsibility
FDI	Foreign Direct Investment
FERC	Federal Energy Regulatory Commission
FIL	Foreign Invest Law
GCC	Gulf Cooperation Council
GCC	Gulf Cooperation Countries
GDP	Gross domestic product
IB	International Business
IFC	International Finance Corporation
IMF	International Monetary Fund
IPE	International Political Economy
KSA	Kingdom of Saudi Arabia
LDCs	Less Developed Countries
LME	Liberal Market Economy
MEED	The Middle East Economic Digest
MENA	Middle East and North African
MNE	Multinational Enterprise
NCC	National Competitiveness Center
NIE	New Institutional Economics
Oi	Institution Ownership
OLI	ownership, location, internalisation
OPEC	Organisation of the Petroleum Exporting Countries
PA	Principal Agent
SAGIA	The Saudi Arabian General Investment Authority

SAMA	The Saudi Arabian Monetary Agency
SCIT	Saudi Committee for International trade
SOCAL	Standard Oil of California
TCE	Transaction Cost Economics
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UKTI	United Kingdom Trade and Investment
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
VoC	Variety of Capitalism
WEF	World Economic Forum
WTO	World Trade Organisation

Chapter 1 : Introduction

1.1 Introduction

The Kingdom of Saudi Arabia (KSA) has the largest population in the Gulf Cooperation Council (GCC) region, is considered to be the most influential and its GDP accounts for approximately half of the total GDP of the Arab countries in the Middle East and North African (MENA) region (Cordesman 2003; Sturm et al., 2008). However, in comparison to smaller nations such as the UAE and Qatar, the size of FDI it attracted between 1984 and 1997 was considerably smaller in proportion to the size of its economy and population (Cordesman 2003; Sturm et al., 2008). Roberts and Almahmood (2009) also share this similar perspective and indicate that factoring in Saudi's economic size and the FDI that it has managed to attract in the past, this has had no significant influence on its economic growth. The main justification for this phenomenon as concluded by the authors within their study is that the KSA has unfavourable inward factors (such as cultural distance and bilateral trade) that are needed to attract substantial FDI (Roberts and Almahmood 2009). In a subsequent study carried out by Mina (2007), the KSA, just like the rest of the GCC countries, is trying to diversify away from an oil-dependent economy by creating a conducive environment for external FDI. However, as exclusively shown by Table 1.1 below, the KSA initiatives utilised to diversify away to date have not been fruitful (Albassam, 2015). This can be evidenced by the steady decline in levels of FDI inflows in the country from the year 2008 down to 2014.

Table 1-1: FDI inflows – The KSA (2008-2014). Units: US\$ Billion

YEAR	2008	2009	2010	2011	2012	2013	2014
FDI	39.50	36.50	29.20	16.30	12.18	8.86	8.01

Source: UNCTAD (2015).

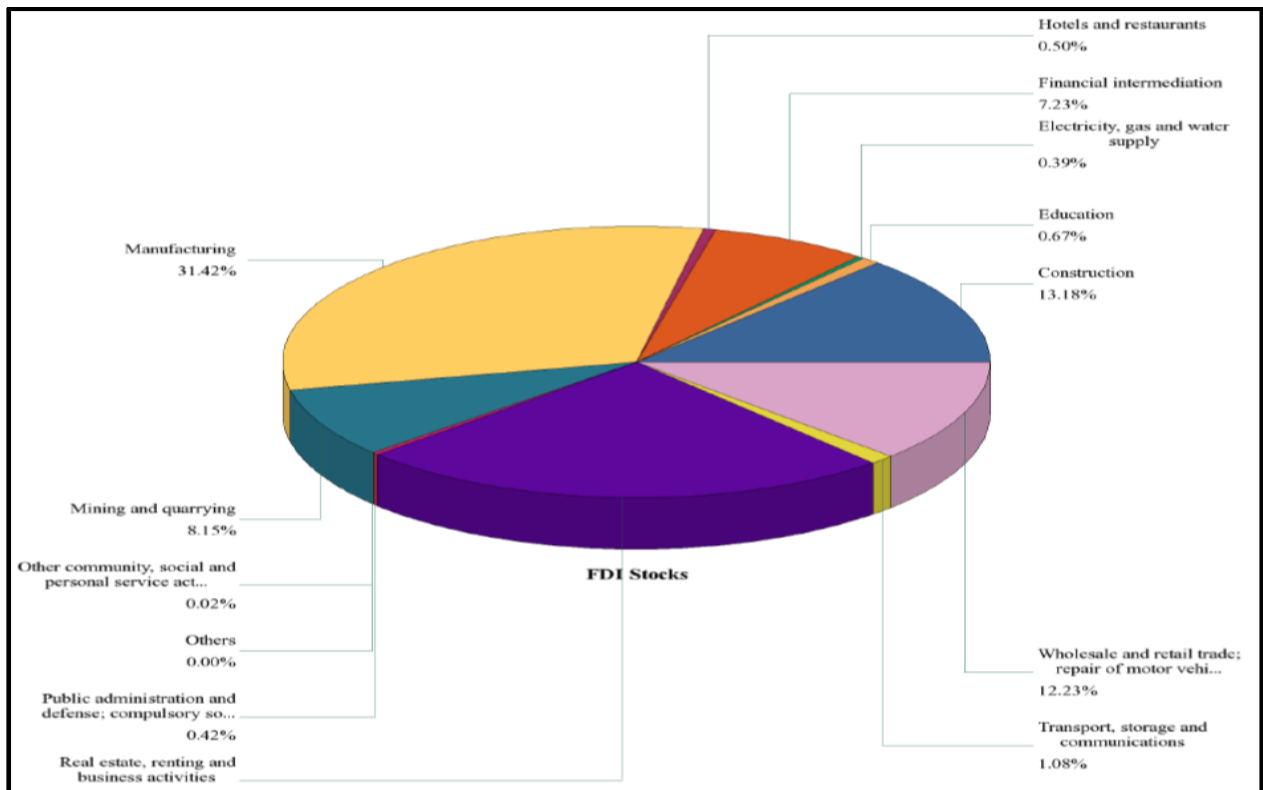
According to Collins (2013), an outward FDI to the KSA could bring home benefits that include improvements in productivity, knowledge, technology and competition brought by firms competing in the Saudi market. FDI also contributes to the GDP of the host country and

stimulates product diversification through new business investments and delivers social and environmental benefits (Ramady and Saeed, 2007).

With regards to the main investors in the KSA, Britain is the eighth largest cumulative investor in the country with approximately 200 joint ventures in a diverse range of industries worth an estimated £11.5 billion (Jenkins, 2013). Also, British MNEs do not focus their investment in one sector such as petrochemical or oil unlike American MNEs. According to Sir John Jenkins (British Ambassador to the Kingdom of the KSA), the data available in the British Embassy and the data in Saudi British Trade Directory (SBTD) only relates to British MNEs (Jenkins, 2013).

Increase in FDI from British MNEs will help the KSA to diversify their economy faster as an increasing number of British MNEs are pursuing a wide range of investment opportunities in different sectors (Figure 1.1) such as education, healthcare, infrastructure and financial services (Jenkins 2013). FDI can therefore be a vehicle for diversification of economic dependence and technology transfer. FDI from British MNEs will help the KSA to diversify their economy more rapidly and steadily.

Figure 1-1: Distribution of British FDI Stocks by Sector in the KSA.



Source: SAGIA (2013)

Little research has been conducted into the reasons behind the poor investment environment within the KSA, particularly on the reasons why it has attracted less FDI than expected.

The research conducted in this study shows that several obstacles still encumber the FDI in the KSA. Some are related to external environmental forces, whereas others can be attributed to internal factors such as culture. From this perspective, the regional area still suffers from tensions at both political and social levels such as a mutual dislike/enmity between Iran and the KSA. This is in addition to regional violent extremism that could be seen geographically in both Iran and Yemen, which made the KSA appear unstable in the eyes of foreign investors. Internally, reduced access to credit beside wide implementation of the "Saudisation" policy that started back in 2011. The country has previously imposed some rules related to ownership that delayed the activation of FDI. Despite the Saudi authorities welcoming FDI, its ambition is still directed toward investments that might contribute to transfer technology, and promote economic development depending on local raw materials. It is not unreasonable to say that the KSA was tardy in developing a proper national infrastructure to attract investment. Additionally, there is still a limited access to the largest oil reserves in the world. The KSA has

been affected by the very low cost of energy since its main income depends on oil, and the living standards are very high for foreign investors (Howells, 2014).

Abdulrahim (2015) believes that since the KSA is a devout Muslim country, there are some religious regulations and restrictions such as the prohibition of interest rates being charged for business loans that control and direct business activities. Marketing is further inhibited because of some of these restrictions, and thus, the KSA has lost the export markets (Abdulrahim, 2015). We believe that some fields of investment are forbidden in the KSA because of cultural refusal such as investment in alcohol and other products forbidden by Islam. Moreover, poor performance of more MENA countries, including low levels of FDI in the region has affected FDI in the KSA (UNDP, 2015).

Hence, it seems there is a need to address these concerns and investigate the institutional factors influencing and possibly holding back the progression and development of British multinational enterprises' (MNEs) and their decision to enter the Saudi marketplace through FDI. The aim of this thesis is to give an overview of the different advantages of FDI and their drawbacks in the KSA. There is a need to analyse the investment environment in Saudi society. Therefore, this study also evaluates the determinants of FDI in the KSA in terms of a socio-cultural, economic and political outlook.

This chapter begins with the background of the research and statement of the problem, in order to lay the groundwork for the study. The chapter follows by defining institutions and FDI as described in the literature, as well as elucidating the research question, aims and objectives, methodology and significance of the study. The final section will explain the structure of the thesis.

1.2 Background of the Research and Statement of the Problem

It is general acknowledged that FDI has been seen as a major tool that is useful in the development of various countries (Dunning, 2000). It improves a country's capital formation as well as leading to the creation of employment and enhancement of the balance of payment in the specific country. The outward FDI is defined as the investment located within the domestic country that is acquired by a foreign owner (direct investment abroad). While, inward

FDI is defined as the foreign direct investment by a foreign company establishing a facility within the domestic country (IMF and OECD, 2008).

Further, FDI has contributed to technological advancement and enhancement of business skills that are important in maintaining efficiency and a certain level of competition. FDI's benefits go beyond simple capital transfer, technology transfer, marketing, exportation, and hence diversification. (See: Hill, 2000; Jenkins and Thomas, 2002; OECD, 1991; Lall and Streeten, 1977, Dunning, 1993; World Investment Report, 1999; Aaron, 1999; Markusen and Venables, 1999; Julius, 1990; UNCTAD 2004; Moosa, 2002 and 2009; Loungani and Razin, 2001; and Lall, 2002).

Numerous economic advantages that are directly associated with FDI have been conferred to most of the developing nations such as Singapore, Malaysia, China, and Hong Kong (HK) among others. In a research study conducted by Karim et al. (2014), Malaysia were shown to excel in terms of FDI because of the stable institutions that have been put in place. As comprehensively explored by Karim et al. (2014), the government of Malaysia has witnessed the country's economy quadruple, partly because the FDI has in recent years responded by strengthening its internal institutions, ensuring political stability, and maintaining favourable policies which from the expert point of view (Hasen and Gianluigi, 2007), are necessary precursors for increased FDI. Besides Malaysia, Japan is one of the developed nations from the Asian region that remains a true testament to the economic benefits that come with indulging other countries such as the US in terms of FDI, where it is the second largest source of FDI into the United States (U.S. Bureau of Economic Analysis, 2014).

In a study carried out by Dunning and Lee (2007), Japan throughout the period 1976 to 1996 has managed to restructure its FDI approach in a more economically viable mechanism in order to be able to deal with big players such as the US, and to deal with undeclared globalisation initiatives. As suggested by Dunning and Lee (2007), to state that globalization has not helped Japan to make huge leaps economically would be a mere understatement. Japan's growth can be accredited to the comprehensive institutional structures and strategic approaches that the country has adopted (Dunning and Lee, 2007), an aspect that is also shared by Berge (2012) in the case of Norway and Myanmar. While acknowledging how far Myanmar has come (from an era of military regime to a more liberal state that has economically benefited from the limited

level of FDI that it already has), Berge (2012) exploits the need of institutional developments which automatically occurs as the gateway to substantial economic growth.

Regionally, Bahrain is a country that shares the same predicament with the KSA but as Al-Khalifa (2007) points out, the small country has been able to capitalise and economically benefit from FDI. According to Al-Khalifa (2007), Bahrain has been able to oversee immense development of its aluminium and petrochemical industry due to FDI. The economic expansion of small nations at the calibre of Bahrain acts as direct evidence of the benefits that come with FDI. The same remains true for the case of Singapore and China. In an analysis carried out by Xing and Pradhananga (2013), the economic growth of China in the recent years has solely depended on the aggressive FDI initiatives that the country has adopted. Based on their comprehensive study, Xing and Pradhananga acknowledge the strategies adopted by China to advance its economic development by relying on FDI that have enabled it not only to deal with developed nations, but also the small developing ones. Table 1.2 below shows how China has also been relying on receiving FDI from the Arab world itself to advance their growth.

Table 1-2: FDI from Arab Countries to China (US\$, billion)

	2003	2004	2005	2006	2007	2008	2009	Growth 08 - 09
Total (USD, B)	53.5	60.6	60.3	63.0	74.5	92.4	90.0	- 2.6
Arab Countries	88.4	126.2	128.4	170.5	246.9	404.2	241.2	- 40.5
Percent (%)	0.2	0.2	0.2	0.3	0.3	0.4	0.3	- 38.6
Saudi Arabia and UAE (%)	86.0	76.1	82.8	88.2	93.4	93.1	94.0	1.0
West Asia	82.4	118.8	119.8	161.6	235.1	387.0	230.2	- 40.5
Iraq	0.1	5.5	3.1	1.5	0.3	3.2	1.4	- 56.8
Jordan	6.2	9.4	8.9	1.3	5.2	3.4	0.9	- 74.5
Kuwait	0.1	0.9	0.5	0.1	0.3	0.6	0.5	- 14.3
Lebanon	1.2	3.0	4.2	6.9	1.0	2.5	1.2	- 53.1
Saudi Arabia	3.6	7.0	9.4	8.2	122.7	2752	113.7	- 58.7
Syria	0.4	0.6	1.0	0.7	1.5	1.4	1.9	38.2
UAE	69.6	85.7	92.0	140.2	100.8	93.8	102.7	9.5

Yemen	0.3	2.9	0.7	1.5	1.5	4.8	4.4	- 8.7
Bahrain	1.0	3.8	0.1	1.2	1.9	2.1	3.6	75.6
North Africa (4)	5.9	7.4	8.6	8.9	11.9	17.2	10.9	- 36.5
Algeria	1.8	2.1	1.0	6.6	3.8	9.0	-	-
Morocco	0.8	1.0	1.7	0.1	0.5	0.5	0.0	-97.8
Sudan	-	0.4	0.6	1.0	0.8	0.1	-	-
Egypt	3.3	4.0	5.3	1.3	6.8	7.6	10.9	43.8

Source: NBS (2010)

A study by Girma and Gong (2008) has also acknowledged the relationship between China and Hong Kong regarding FDI, an aspect that has spurred numerous economic advances to the latter. Just like China and Hong Kong, a study conducted by Prime (2012), indicates that Singapore following in the footsteps of the former, has been using FDI to stay ahead in terms of economic performance. As comprehensively explored by Prime (2012), Singapore's economic performance could not have been where it is were it not for FDI.

Despite the numerous advantages of FDI on different countries such as Singapore, HK, China, and Malaysia, little research has been done on FDI in the KSA (Roberts and Almahmood, 2009). Hence, it is hoped that this study can help by filling this gap. The existing research conducted on FDI is quite limited and has suggested that FDI assisted in the development of some industries (Hegger, 2003). According to Saidi and Rachdia (2015), FDI in developing nations help to spur the available empirical economic growth.

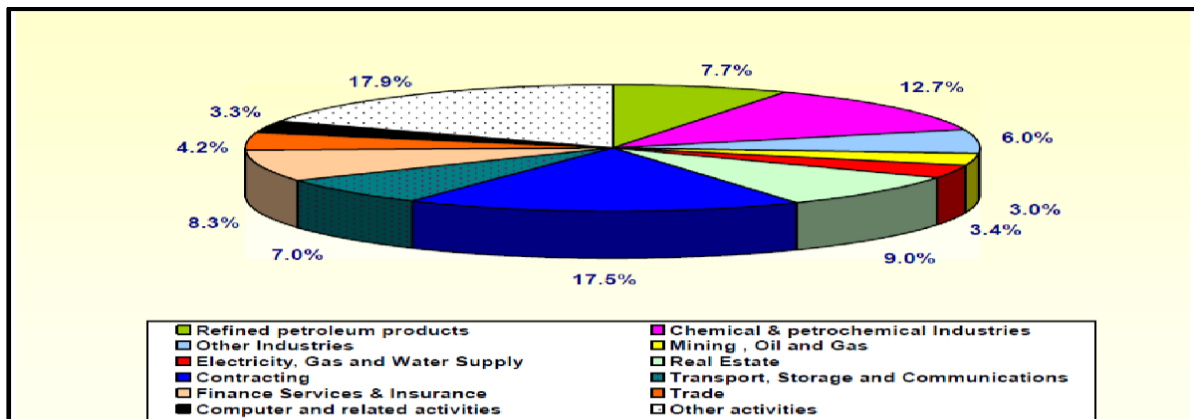
Research suggests that those countries that receive a large amount of foreign capital inflow (to be discussed in chapter 3), are said to experience faster economic growth compared to those that do not. The literature further acknowledges that FDI in the KSA has not been analysed widely (Roberts and Almahmood, 2009). They assert that there is a need for more emphasis on the sources of FDI rather than mere preoccupation of attracting FDI. Others evaluate the FDI in a variety of perspectives, including in a cross-country setting such as level of corruption, institutional determinants (Benassy-Quere, Coupet and Mayer, 2007) or factors based on proximity, contacts and adaption to the local environment (Roberts and Almahmood, 2009; Bolbol and Fatheldin, 2006).

Another factor to consider is that the KSA has a large dependency on oil for its economy. It is clear therefore, that the KSA must diversify away from this sector and expend its efforts towards attracting new and varied sources of FDI. Despite the number of investment laws developed, membership of the World Trade Organization (WTO), and other efforts to provide incentives to increase foreign investment, its FDI is not near the level it should be given the size of the country (SAGIA, 2009).

A variety of factors make the KSA less attractive in terms of gaining FDI. Some of the factors include transaction issues at the government level, few labourers who are skilled in the different operations, problems in the acquisition of visas, insignificant incentives, minimal information that is often critical for investment, a lack of coordination, low potential and opportunities for promotion, inadequate protection and various laws and regulations set by The Saudi Arabian General Investment Authority (SAGIA) (Mina 2007; Abdel-Rahman 2007; Roberts and Almahmood, 2009; Ramady and Saeed, 2007; and SAGIA, 2009).

The KSA's economic development has experienced mass extension in oil exportation for the last 70 years, and about 75% of its revenue comes from oil, which forms 90% of the export in the region (SAMA, 2015). The Saudi Arabian Monetary Agency (SAMA) provided a report in 2015, and clearly stated that about 50% of the Kingdom's GDP was derived from oil revenues (SAMA, 2015). However, too much dependence on a single commodity alone can be highly risky for such an emerging country, and it may be prone to external threats that may affect the economy (SAGIA, 2009). As a move to counter this, the KSA's government has advocated for the legislation of the Foreign Investment (FI) Act of 2000, together with the National Competitive Centre (NCC), and the Saudi Arabian General Investment Authority (SAGIA), to ensure increased investments from foreign nations (SAMA, 2015). As such, there has been increased growth of FDI inward inflows, from \$17.5 billion in 2000 to \$215 billion in 2014 (UNCTAD, 2015). However, these inflows are still confined to oil and the petrochemical sector as shown in (Figure 1.2).

Figure 1-2: FDI Stock by Sectors in 2010 (Total US\$ 170.4 Billion)



Source: National Competitiveness Center NCC (2011).

FDI is tied to economic growth and a much-needed source of capital in any host country (SAGIA, 2014). Not only do the inflows offer stable financial flows, but also the long-term nature of commitments to the hosts assures there is a regular capital inflow (SAGIA, 2009). The KSA needs investment for rapid development to take place. It would benefit from FDI as it uses it as a source of capital for the national projects required for development of the economy.

The KSA continues to struggle to maintain an attractive front for investors. Accountability in the KSA still remains a great impediment for investors. Bureaucracy is still large and slow in the KSA, with opaque restrictions. There have also been concerns over the lack of coordination and rivalry between the ministries and the government bodies. For example, SAGIA has been blamed by investors for inconsistencies in implementing regulations. These challenges in attracting foreign investments are being exposed at a time when the KSA steps up its bid to diversify the petroleum-dependent economy, transfer technology and create more job opportunities for the Saudis. With the present emphasis and attention given to diversification for lesser dependency on oil revenues in the future, the private sector in general and investments from foreign investors in particular, are presumably considered the key pillars of diversification strategy.

In recent years, FDI has become a more important issue than trade for the GCC (Hertog 2010), but the KSA was slow to open capital markets to foreigners. Instead, the major economic developments in the past were focused on infrastructure and in building domestic-based,

government-owned, heavy industries focused on trade and exports mainly targeting its neighbouring countries (Hertog, 2010).

In addition, the capital intensive nature of these heavy industries did not only restrict private equity investments, but was prohibitive of any form of foreign ownership (Looney, 2005). Much of the raw materials used to produce industrial goods i.e. fertilisers, petrochemical, cement and steel, come from local hydrocarbon and mineral resources (Looney 2005). State sovereignty assigns full property rights of natural resources and mineral extraction only to the Saudi government and its people (Vanderheiden 2014).

The KSA needs to address the above issues impeding its foreign investments portfolio in order to attract FDI at a rate that is competitive to its much smaller neighbours. Presently, the GDP growth and FDI from the region is not strong (SAMA, 2015). From the recent survey of economic reports, the values for growth and trade sensitivity elasticity to investments were estimated at 1.36 and -0.068 respectively (SAMA, 2015). The marginal impact of the growth rate of the nations was estimated at 0.004, and is a clear reason why the efforts of development from the region have not increased attraction in investments at the expected rate except in other segments such as the oil sector (SAMA, 2015).

For the purposes of stability and sustainable growth in the KSA, FDI is required in both import and export to promote a variety of industries. This research seeks to identify what institutional factors are being adapted and valued by British MNEs currently operating in the KSA. There is a need to understand the various factors that encourage FDI inflows into nations, and why different countries are often successful when compared to others, when attracting this important investment tool (Collins 2013). The intent is for policy makers to improve future regulations and policies to attract investments from foreign nations. A number of studies have been conducted on the issue of inflows into nations, yet the views and consensus were not conclusive. A significant lack of widely accepted factors and determinants that can explain the different determinants of FDI in nations exists (Saidi and Rachdia, 2015). This study intends to close that gap.

In the KSA, some factors have been identified that lead to a low inflow of FDI. They include; exchange rates, trade barriers, costs of labor and trade balance. Tax has been identified as both

positive and negative at the same time. The unavailability of a set of accepted and widely used theories on FDI complicates the matter causing a need for research to ascertain the determinants of FDI in the KSA.

In order to attract more foreign inflows, Saudi policy makers' must focus on the institutional determinants that impede the MNEs from investments in the KSA, especially the MNEs from developed countries (SAGIA, 2006). SAGIA's main aim is to attract more FDI, which will add value to the economy, transfer technology and hire more Saudi citizens to reduce unemployment in the future (SAGIA, 2006). In addition, most Saudi policymakers agree that the future political stability and economy of the kingdom will depend on its ability to attract more FDI to diversify the economy (SAGIA, 2006). In 2016, the Saudi Government launched their vision 2030, in which a general agreement towards more investment to diversify the economy, stabilise the political system and increase economic growth emerged among policy makers (Saudi Vision 2030, 2016). The question is, therefore how can they achieve such an objective? This question can only be answered by better understanding the various determinants of investments in the KSA, hence the need for the study.

1.3 Institutions and FDI

Several factors have been associated with the dismal attraction of FDI in various nations. Zuhur (2011) introduces a classification of determinants that have impeded FDI in the KSA into economic, supporting and encouraging, and structural factors. The total system is grouped under the political, economic and social structures of foreign investment attraction. Zuhur (2011, p.250) outlined that:

“The determinants of FDI process in the KSA are economic, political and social factors and the level of economic activities along with variables related to capital turn structure, degree of openness of economy and economical atmosphere are regarded as effective factors on FDI. Gross national product has a significant effect on FDI and imports and exports have reversed and significant performance on it.”

Moreover, the KSA has experienced continued trends of decreased FDI funds as seen in Table 1 (UNCTAD, 2015). In 2012, the FDI inflows stood at \$12.2 billion from \$16.3 billion in the

previous year (UNCTAD, 2015). In 2008, the FDI inflows were recorded at \$39.5 billion only to drop to \$29.2 billion in 2010 (Ramady 2010). These drops in FDI inflows serve as testimony of the KSA's capability to impede FDI. This trend follows other MENA countries that have been known to impede FDI through factors including; restricting FDI to a few sectors, heavy reliance on oil, over-dominance of the state in the economic sector, and underdeveloped institutions (Ramady, 2010). Literature on the FDI determinants reveals that there are numerous variables that influence the flow of FDI to a specific region (Ramady, 2010). Two factors that have significantly impeded FDI are the underdeveloped institutions and over reliance on oil (Roberts, 2010).

As indicated by various experts, the programs put in place by the KSA have not been of much help in sanitising its FDI (Ramady, 2010; Roberts and Almahmood, 2009; UNCTAD, 2015). Tintin (2013) provides analysis showcasing how significant institutions are in attracting FDI. In a comprehensive study by Berge (2012), strong institutions ensure efficient structural, economic and political support, aspects that Tintin (2013) agrees with in his analysis of the top economies (US, Japan, China and 15 countries from the European Union). Both authors agree that strong institutions are proportionally correlated to the level of FDI while the opposite (which is partially the case of the KSA), remains the truth. In his analysis of the KSA, Albawardy (2010) shows the practical disorientation of organisations in the territory and their inability to synchronise well with some practical models that are adopted by international entities. To Albawardy (2010), this can be justified by the weak institutions present in the country.

With its extensive experience of initiating growth in the Less Developed Countries (LDCs) across the globe spanning more than five decades, the World Bank has been able to acknowledge the role of institutions in dictating the direction of general economic performance, mainly FDI (World Bank, 1997 and 2000). This viewpoint of having strong institutions in place has not been ignored by the expansive economic literature as well-known theoretical economists such as North (1990, 1991) who managed to emphasise the same issue, that is, the solid role of both formal and informal institutions. Borrowing an idea from the early work of North (1977), the much publicised role of institutions in FDI, which is supported by the New Institutional Economics (NIE), is their ability to harmonise together various factors thereby positively influencing the total costs that are directly related to enhancing production and

innovation. According to Henisz (2000a, 2000b) and Mudambi and Navara, (2002), this is an approach that has been adopted by international business academics when justifying the solid position played by institutions.

In a study by North (1990), institutions are the rules of the game. He mentioned that, organisations, firms and individuals are the players in the game and that institutions are defined by NIE as a set of rules and relatable characteristics that exclusively define a level playing field where major business protagonists each get an opportunity to expand. To North (1990) and others such as Berge (2012) and Mudambi and Navarra (2002), the institutions provide the guidelines which dictate the political, economic and social conditions that organisations thrive in. A similar perspective is also shared by Daniele and Marani, (2006) while analysing the MENA region where they indicate that institutions do matter a lot when it comes to FDI. From a formal perspective, North (1999) describes aspects such as the constitution and the law while from an informal point of view, describing the norm that governs a standard way of doing things by organisations.

According to Sedik and Seoudy (2012), the evolution of the structural and political support that is conferred by formal institutions has seen the emergence of both political and economic agents while on the other side of the divide, informal institutions advocate for behavioural changes that are hard to accomplish, especially in the short term. Based on this viewpoint, any country that is able to make such a transition is deemed to reap the full benefits of an established FDI and as explored by Dunning and Lee (2007), Japan is one such country. Although not honouring the aspect of both formal and informal evolution, Dunning and Lee (2007) indicate that Japan opted for restructuring of formal institutions while informally opting for long term changes, a transition that occurred in over a period of two decades. The same formal and informal institutional transition was also accomplished by China (Girma and Gong 2008) justifying the country's ability to register an ever expanding FDI. Using the work of North (1990), the ability of a country to change both formally and informally in the short term requires the dictation of a good institutional framework. The same theoretical approach is also provided by the World Bank (WB) which indicates that the power possessed by institutions defines the effectiveness of the FDI. Regardless of this fact, the WB (2002) also acknowledges that reforms that are orchestrated to favour FDI growth may not be so appealing at times.

Consequently, Daniele and Marani (2006) mention several necessary factors and procedures that are required for FDI policies to be effective which include putting in place decisive rules, enforcement mechanisms, appropriate institutions that will promote market effectiveness, and unbiased information flow channels that will ensure that operating costs to the available parties are kept to a minimum. As further expounded by North (1990) and WB (2002), the institutions must attain near perfect statuses in a given environment where reform policies are being perpetuated. Focussing on the poor economic performance of Arab economies in the Middle East and North Africa, (Shafik, 1998) acknowledges this particular phenomenon but indicates that it remains a puzzle when trying to locate the origin of poor economic performance. Based on Waterbury's (1998) intellectual deductions, there is a need to understand the previous reform conditions orchestrated by the MENA family in order to deduce effective postulates that will oversee a successful market transformation. An opinion from the WB (1997) indicates that if the previous undertaken reforms are directly underpinned to the governance and organisational culture, then it remains relevant that long-term transformational procedures need to be adopted to make sure that there is a harmonious synchronisation of both formal and informal institutions.

Accordingly, covering the expansive literature in NIE, much emphasis on FDI is not without reflecting on the superior position played by effectively well-functioning institutions. Among the vast majority of scholars who are in consensus with this particular notion are Busse and Hefeker (2007) and Harms and Ursprung (2002). Putting into perspective the work of North (1990, 1999), the case affecting MENA countries including the KSA can be linked to the crude behaviours that were extensively adopted during the prevalence of the traditional institutions. As such, experts indicate that trying to initiate change in such an environment is always met with resistance mainly due to the slow response, thereby obstructing effective institutional reforms (Yin et al. 2012). In summary, the WB (2002) notes that much emphasis has been given to the formal institutions whereas informal ones are just as significant. Upholding a similar opinion, North (1999) who uses the case of Russia and Latin America to justify his point indicates that the rule of law and well outlined enforcement mechanisms are the only way that FDI efficiency can be established in developing countries.

1.3.1 Background on Institutions and FDI in the KSA

There is a clear lesson that has been learned as a result of the Asian crisis, and it is that foreign investment is usually reliable and a better source of investment compared to portfolio investment. Zuhur (2011) confirms that FDI is one source of investment internationally that is the least volatile and upon which developing nations depend. Due to the dependence on FDI, most nations have enhanced their environments and created policies to ensure an increase in FDI inflows to their regions.

The KSA's movement towards its domestic goal of attracting FDI was initially slow until the Foreign Investment Law (FIL) was introduced in April 2000 to spur potential investors, with the main objective of reducing oil dependence through diversification (SAGIA, 2006). In January 2004, the Saudi cabinet approved a reduction in taxes on FDI as part of its effort to speed up economic reforms, hasten privatisation processes and stimulate FDI (SAGIA, 2006). Between 2005 and 2006, the increase in FDI inflows was attributed to the gradual opening of the economy to foreign investment. Thereafter, the KSA agreed upon the provisions of the WTO (Evenett and Braga, 2005). Part of the potential benefits of WTO accession relates to bolstering exports and increased FDI inflows (Evenett and Braga, 2005).

Legal and judicial reforms have been put in place to comply with international agreements and make FDI in the KSA more attractive (Ramady, 2010). It has the most liberal jurisdiction for FDI in the GCC, and allows a 100 percent foreign ownership in selected sectors and foreigners to trade on the stock market through open-ended mutual funds (Fasano and Iqbal 2003). By 2008, the net FDI inflows exceeded USD 35 (Al Ayed, 2010), estimated to represent around 2.2 per cent of the world's total of USD 1.7 trillion (Ramady, 2010).

Most FDI was in the form of joint ventures arranged with expectations that foreign investors have a strong global network enabling locally produced goods to access foreign markets (Al Ayed, 2010 and SAGIA, 2009). However, it remains unclear if there is a sufficient institutional method for monitoring businesses forged as joint ventures (Ramady, 2010). A study by Ramady and Saeed (2007) shows the lack of transparency, stability, predictability and non-discriminatory systems of investment, taxation and regulation which add up to the ambivalent attitudes that Saudi managers have toward FDI.

Roberts and Almahmood (2009) assert that a need exists to place emphasis on the various sources of FDI. Others evaluate it from a country's position from the overall level of corruption institutional determinants (Benassy-Quere et al. 2007) or factors based on proximity, contacts and adaption to the local environment (Roberts and Almahmood, 2009; Bolbol and Fatheldin, 2006).

1.3.2 Theoretical Overview

The International Monetary Fund (IMF) has worked diligently to improve policies to cope in an efficient manner with challenges related to the changing financial environment in which the KSA played a role. This provides a foundation for the KSA to venture forth in developing their own policies that reflect the understanding and expectations of other nations within their own with FDI. As of 2015, the KSA experienced a large drop in their oil prices starting in the summer of 2014 and since the country is very dependent on oil revenues, this has lowered their economic outlook. This demonstrates again the need for the country to expand its FDI levels.

For an improved comprehension of institutions in determining the FDI inflows, it is imperative to associate frameworks assessing impacts of institutions on economic activities (particularly in investment incentives) with the frameworks assessing the determinants of the FDI (Ali et al. 2010). One method for doing this is by blending Dunning's eclectic paradigm (OLI) with perspectives by North on institutional impacts on economic and investment activities (Ali et al. 2010). Dunning's (2000) paradigm has been produced to demonstrate the behaviour of Multinational Enterprises (MNEs), which is to demonstrate why firms possess international production facilities. Institutions are connected to the FDI, in light of North's perspectives about the impacts of institutions in economic and investment activities (Dunning, 2000). Dunning and Lundan (2008) incorporates institutional influences explicitly (North's views on the effects of institutions) in the OLI paradigm.

FDI flows to developing countries such as the KSA are conditioned by the host country's institutions and consequently, countries that have strong institutions will attract more FDI (Wernick et al. 2009). Cantwell et al. (2010) were able to incorporate elements into their theoretical expositions of MNEs' contemporary dynamics that they would likely engage with: institutional avoidance, local assimilation or adaptation and instituting change through co-

evolution. Societal and business dynamics attributed to the concept of co-evolution was made important (Cantwell et al., 2010).

Dunning and Lundan (2008) updated the eclectic paradigm to accommodate the different influences of institutions inside the MNE as well as those between it and the external environment in which the firms operate. The concept of *institutional ownership* (Oi) was introduced by Dunning and Lundan (2008) under the premise that, the MNE's ability to grow requires effective management of both the market and nonmarket domains, and necessitates the simultaneous deployment of asset-based advantages, advantages of common governance and institutional advantages. Thus, insufficient Oi may be relative to the inability of some MNEs to expand beyond their regional market.

Within the new institution theory, the institutional environment represents the fundamental social, legal and political laws that provide a basis for production, trade and distribution. Nations with weak institutions present challenges for direct investment by firms. This notion of an "institutional void" has been associated with the KSA and the MENA nations as they have consistently lacked the basic regulatory as well as judicial institutions that facilitate economic activities. Even when the investor is willing to adapt the business model in order to comply with the nation's institutional context, the business will suffer from costs in input and product markets from weak institutions.

The work of Kuznetsov and Jacob (2015, p.175) offered a perspective on the subject of institutional impacts on company adaptation using the "variety of capitalism" VoC theory. They investigated the operations of German subsidiaries operating in the UK to examine forces and conditions that promote or impede adaptation processes. They devised a self-designed instrument which they termed the "index of institutional impact" that focuses on the holistic rather than business aspects of the organisation. This index makes it possible to convert the qualitative characteristics of subsidiary and parent companies into a format that can be used in quantitative analysis.

The study reveals that the behaviour of German subsidiaries are relatively aligned with the institutional practices in the host country (UK) and are mediated by factors internal to the firm (i.e. age, size and subsidiary function) (Kuznetsov and Jacob, 2015). As the "index of

institutional impact” is able to quantitatively translate data that would have traditionally been obtained through case studies or anecdotal evidence, the instrument may be used under a similar methodology and purpose in another setting or location. This study is based on the work of Kuznetsov and Jacob where they determined factors affecting FDI inflow, and thus, an explanation of these factors is illustrated later in the literature review and the framework of the study.

1.4 Research Question, Aim and Objectives

The aim of the study was to determine what institutional factors are adapted and valued by British MNEs currently operating under FDI arrangements and the level of importance it has toward the institutional environment in the KSA. The objectives of this research are:

1. To determine the institutional factors which are valued and adapted by British MNEs.
2. To analyse how British MNEs perceive and adjust to the environment and obstacles within the environment in the KSA.
3. To determine the ability of the KSA in terms of attracting FDI and their institutional policies.

The objective was to capture a clear picture of how these MNEs perceive the environment holistically, including obstacles and deterrents and how they adjust to these factors in their environment. The aim was to establish whether British MNEs are discouraged by the status of the institutions from the region to the extent of limiting their business practices according to the broad aspects of internalisation. In addition, the study will collect data that reflects important characteristics of MNE engagements. The second objective the study purported to achieve was to ascertain the relationship between the ability of the host country to attract investment and the institutional policies they have in place.

In order to achieve the objectives, there is a need to investigate obstacles at an institutional level in the KSA that British MNEs tend to avoid in the Saudi business environment. Therefore,

the research question was drawn that largely encompassed the broad issue of adaptation to the local Saudi business environment and/or institutional setup. The ownership, location and internalization (OLI) paradigm by Dunning (2000) was the main framework used to address the research question. The work of Cantwell et al. (2010) provided an example and guidance on how the OLI paradigm could be used as the base context to induct a broader study oriented towards understanding the behaviours of British MNEs in the context of international business.

Having acquired some background information and synthesised knowledge, sets of research questions (RQ) were formulated that largely encompassed the broad issue of adaptation to the local Saudi business environment and/or institutional setup. The research question for this study follows the objectives by exploring the topic in greater detail. This is the research question:

- 1- What institutional and locational obstacles exist for the KSA that British MNEs tend to avoid?

1.5 Methodology

The study is based on primary data collected via a questionnaire. The questionnaire was divided into four sections: demographics, institutional avoidance factors, institutional adaptation factors, and institutional co-evolution factors. The questions used were derived from the literature review mentioned above as well as from secondary sources (e.g. the “index of institutional impact) coming from the theoretical basis discussed above. The hypotheses were adapted and the resulting values were interpreted in line with a chosen framework.

This work is based on a sample of 200 British MNEs operating in the KSA between 2002 – 2015. The SPSS software has been used for data analysis, which focuses on a descriptive analysis, correlation and regression. The research was conducted following a pre-approved research protocol (Dillman, 2000). In line with the University Code of Research, research ethics were strictly followed.

1.6 Significance of the Study

The significance of this study is due to three reasons. Firstly, it is noted that studies relating to Dunning's (2000) OLI paradigm in the real world context of the KSA appear to be quite limited, thus there is a clear gap in the literature. The significance of this study provides insights into the impact of institutional differences on organisational behaviour of British MNEs giving senior executives a good understanding of the options available to them in the Saudi market (Kuznetsov and Jacob, 2015).

Secondly, this study's potential contribution to the body of knowledge for academic and future research purposes (Albawardy, 2010). Finally, this study scrutinises FDI initiatives in the KSA (Roberts and Almahmood, 2009).

According to Badr and Ayed (2015), exploring numerous literature with regards to FDI is rated as a significant tool to the diversification of the developing countries. Albawardy (2010) indicates that FDI does not only play a part in a country's bid to enhance its revenue but it also oversees the transitioning of the entire economic sector with aspects such as job creation. Notwithstanding the vast advantages that are associated with effective FDI, little research in the previous years has been carried out to determine how the KSA is impacted by its own economic policies. The existing research gap is the main motivational factor for the present study. With the limited body of research available, a common assumption has always been that if FDI affects other countries positively regarding economic development, the KSA must be experiencing the same. Early study findings by Hegger (2003) showed a positive correlation between increased FDI and economical vibrancy of the KSA. From a general perspective, Saidi and Rachdia (2015) show an appreciation of FDI's ability to activate economies that are underperforming. The authors acknowledge that countries with a stable FDI have a strategic advantage to oversee the required economic changes. In line with this view, Alshareef (2013), highlights that little research has been carried out regarding the state of FDI in the KSA and various factors associated with it. Therefore, considering the fact that only a handful of studies have been carried out to scrutinise the effects of FDI's on the KSA's economy and society in general, it was necessary for research of this calibre (the present study) to be conducted. Furthermore, the recommendations from this study may be considered as a referential basis for concept development and institutional reforms by governmental agencies promoting FDI such as the UKTI, the SCIT and the SAGIA.

1.7 Chapter Summary

This chapter began by providing a background on the research, moving on to the research problem. It also reviewed the reason why FDI is important to the KSA and why it has been struggling to effectively develop it. In recent years, the diversification economy has become a more important issue for policy makers in the Kingdom for future political stability and growth economy. Also, the private sector in general and FDI in particular are presumed to constitute the key pillars of Saudi diversification strategy. The KSA aims to attract more FDI that will add value to the economy, transfer technology and hire more Saudi citizens to reduce unemployment locally in the future. FDI inflows to the Saudi market are still heavily reliant on the oil and petrochemical sector, and it is well known that a single commodity can expose a country to external risks and threats. To ensure this does not happen, the government has implemented some market reforms and legislations, and has also set up different bodies such as the NCC and SAGIA for the purposes of increasing FDI through foreign investors.

Chapter 2 : New Institutional Economics

2.1 Introduction

The use of New Institutional Economics (NIE) that combines various disciplines such as economics, law, organisation theory, sociology, political science and anthropology is applied in this study, as it will give a better understanding of the institutions in the KSA. Research shows that the NIE will be useful to investigate obstacles at an institutional level in the KSA that British MNEs generally tend to avoid, and the strategies they utilise to adjust their structure and policies to ensure smooth integration into the Saudi business environment (North 1990, 1991, 1999). This study will borrow some information from several other disciplines especially in the field of social science, but the main language used can be found in the field of economics. This helps provide a detailed explanation of what institutions are, how they came about, the role they serve, and how they can be transformed into better facilities (Stuckey, 1983; Hennart, 1988).

This chapter reviews a wide range of literature that supports institutional economics, with a key focus on the institutions, and how they adjust to fit and act to co-establish change in a given environment. The literature review begins by giving an overview of institutions, and then moving to the following subtopics: Origins of institutionalism, Constituents of New Institutional Economics, (transaction costs, principal-agent theory and property rights), Institutions and economic change process, economics of information, arrangements of institutions, concept of moral hazard, abilities and proficiency of the firm, study on contracts, institutions, and organisations, successes and challenges of NIE, and relevance of the NIE theory to the FDI Impediments, before providing a summary with a comprehensive conclusion.

NIE describes institutions as the humanly devised constraints that structure their interaction. They are made up of formal constraints (e.g. rules, laws, constitutions), informal constraints (e.g. norms of behaviour, conventions, codes of conduct), and their enforcement characteristics (North, 1994). Clague (1997, p.2) has also defined institutions as the “rules of the game”. He also adds that “The emergence and evolution of these rules is understood in terms of the motivations and decisions of the individual actors in the collectivity”.

2.2 Definition of Institutions

The terms ‘institutions’ and ‘organisations’ are often used interchangeably by many who believe they are mutually synonymous. However, institutions are not the same as organisations or firms and cannot be used to represent the same entity. A method of understanding what institutions are in the context of this study is to consider the ‘institutions’ as the rules of the game and ‘organisations’, ‘firms’ and ‘individuals’ as the players in the game (North, 1990). Institutions are termed as a set of entities that include formal (contracts, laws, markets, political systems, etc.) and informal guidelines that govern normal conduct including customs, traditions, norms, religions, values systems etc., that help in governing the relationships between individuals and groups (North, 1990). Institutions are said to be the main determinants of the game as played by both the economy and organisations (North, 1990). The interaction between institutions and organisations is considered the backbone of the institutional evolution in an economy (Williamson, 2000). New institutional economics contains two levels of operation termed macro and micro, according to Williamson, (2000). It affects the trend and performance of most of the economic performers which encompasses most of the institutional forms and transactions.

According to Williamson (1993), institutions are a set of necessary social, political, and legal rules that determine whether processes such as production, exchange and distribution will take place. He argues that these levels refer to the different modes of managing used in transactions including quasi-markets, and classified methods of contracting. The main emphasis in this case is the specific transaction and in some places the questions on organisational forms that include the analyses of the vertical integration and outside contracting (Williamson, 1993).

2.2.1 Divisions of NIE

Olson and Kähkönen (2000) confirm that NIE is divided into different sections as they compare modern economics in the metropolitan regions with the “suburbs” and expand to other fields such as law, politics, sociology, etc. In a field such as politics, economists and researchers have created a positive political theory, and legally, it has made major contributions in the field of economics and legal matters (Olson and Kähkönen, 2000). Traditionally, economists had restricted their study to prices of commodities, their quantities and patterns in fluctuations

(Olso and Kähkönen, 2000). Today, they have expanded to study in detail the structure of governance and mechanisms used in resolving dispute in societies (Olso and Kähkönen, 2000). For this reason, such studies have been referred to as "New Institutional Economics". However, according to Olson and Kähkönen (2000), NIE is occasionally referred to as the extension or simply "suburbanisation" of economics.

2.3 Origins of Institutionalism

In the expansive field of social science, institutionalism covers a large area. Regardless of the unique ideology presented by each field under institutionalism, all of them can acknowledge that institutions, whether formal or informal, do matter (North 1990). The fact that institutionalism has its branches varying from one another is evident to see. Two significant methodological postulates are used to deduce the differences by concentrating on the origins of institutions. The two approaches are; the deductive, agency viewpoint and the inductive, historical and structural point of view.

In adopting the deductive perspective, Greif (2004) indicates that the decision-makers are placed at the centre of the analysis where institutions are studied deductively as rate limiting outcomes that reflect on the dynamic association of sole objectives, potential possibilities and the environment that supports the coming together of all these factors. In a more simplified mode, the institutions are scrutinised to reflect human actions where their existence cannot surpass the sole reason as to why they were established. On the other side of the divide, an inductive perspective is seen as structures that do not dwell on prevailing needs and potentialities but rather devote much effort in shaping the outcome associated with the needs. From a common understanding, institutions dictate the people's connections with others while moulding the social and cultural aspects of life.

In the field of sociology, Grief (2004) acknowledges the fact that numerous philosophical notions are associated with the concept of institutions. For instance, the esteemed works of Max Weber assert that institutions highly reflect the human interaction while the accomplishments of Durkheim regard institutions as social features that place themselves upon humans. The political science which uses a rational methodology categorises institutions as instrumental outcomes of history, the historical approach sticks to the historical process.

Putting all these derivations into perspective, DiMaggio and Powell (1991) acknowledge the various distinctions that define institutionalism and indicate that most economists and other theorists consider that actors create institutions that deliver on the results they so desire, rarely considering the origin of preferences.

DiMaggio and Powell (1991) and Nielsen (2001) argue that institutionalism in organisational theory has its root in the individual preferences dictated by institutions and is termed as endogenous based on the issue of social construction. The conflicting take on the issue of institutionalism in the different branches of social sciences due to their different methodological approaches can be linked to the same discipline. The diverging views of both old and new institutional economics act as the perfect example in differences that do merge in a similar field.

Institutional economics evolved in the late 19th century and early 20th century in America as a dynamic response to the then prevailing incompleteness of economic perception by the mainstream of the discipline. According to Commons (1931) and Hodgson (2000), the schools of thought (institutional economics) saw it as inevitable in order to avoid failure and sufficient functionality because the role of institutions was being ignored. According to the aforementioned authors, the incapability of mainstream economics in fully accepting the role of institutions, meant that immense obstacles were encountered while trying to solve life problems. As indicated by Hodgson (2000), the real institutionalism did not advocate for rationalism and wealth maximizing utility as the appropriate constructs to scrutinize the economic phenomenon and territorial performance. Therefore, to fully appreciate the economy, one has to acknowledge the role played by institutions in general economic performance.

In 1918, Hamilton brought to light institutional economics during a conference with the American economic association where he indicated that institutional economics as an individual sector was capable of harmonising various units of economic science (Hodgson, 2002). Two dispensations of institutional economics can be identified. Vablen (1898), Commons (1931) and Mitchell (1910) are widely associated with traditional institutional economics while NIE is linked to the likes of as Coase (1937), Williamson (1985) and North (1990). According to Ritcher (1996), these two forms of thought within the same discipline, differentiated by the aspect of time, nullify some of the neo-classical economic postulates such

as economic rationality. The main significance of these two dispensations as pointed out by Harris et al. (1995) is that these two are more preoccupied with agents of economic change and progress.

In the analysis carried out by Hodgson (2000), the difference between old and new institutionalisms is that the former is not in consensus with the notion that preferences functions have to be used to model individuals. Scholars such as Veblen (1898) and Galbraith (1970) who are known to have dealt with traditional institutionalism indicate that individual preferences are developed by institutional circumstances. Hodgson (2000) describing structural determinism indicates that the perception of the traditionalists creates a floppy social order where by individuals remain vulnerable to being manipulated by institutions. In addition to the prevailing differences, it is significant to note that not all traditionalists embraced the disregard of the upright social order. For instance, Veblen (1898) sees institutions as being the collective result of individual norms. As indicated by Hodgson (2000, p. 36), Commons (1965, p. 6-8) indicated that:

“the institutions in which he (the individual) finds himself is both the cause and effect of his beliefs....common beliefs and desires are the vitalising, active force within the institution”.

According to North (1990, 1991), NIE as a distinct dispensation does not embrace instrumental rationality, but presenting contradictory views on the same subject matter are Harris et al. (1995) who use the work of Stein (1992) and Hodgson (2000) who indicate that NIE accepts this deduction. Following the connotation presented by North (1990, 1991), NIE justifies the economic phenomenon by focusing on the mainstream economic orientations, whereby he indicates that the inclusion of the instrumental rationality would mean that economics are institution free and the idea of zero transaction costs prevail, which according to him is not what the new dispensation is all about. To North, the new school of thought is all about justifying the economic performance with its relationship to the position occupied by institutions. On the subject of NIE and instrumental rationality, Harris et al. (1995, p.19) indicates that North wrote:

“How does this new institutional approach fit in with neo-classical theory? It begins with the scarcity hence competition postulate; it views economics as a theory of choice subject to constraints; it employs price theory as an essential part of the analysis of institutions; and it sees changes in relative prices as a major force inducing change in institutions. How does this approach modify or extend neo-classical theory? In addition to modifying the rationality postulate, it adds institutions as a critical constraint and analyzes the role of transaction costs as the connection between institutions and costs of production. It extends economic theory by incorporating ideas and ideologies into the analysis, modeling the political process as a critical factor in the performance of economies, as the source of the diverse performance of economies, and as the explanation for "inefficient" markets.”

According to Harris et al (1995, p.17), an earlier statement by North can also be used to expand his position on the subject matter:

“If values are considered as given and constant.....then....it is not necessary to distinguish between the real world and the decision-maker’s perception of it. Second, it is possible to predict the choices that will be made by a rational decision-maker entirely from knowledge of the real world and without knowledge of the decision-maker’s perceptions or mode of calculation.”

Scrutinising further the justification provided by North above, it remains significant to point out that NIE does embrace rationality as expounded by neo-classical economics but rather opts for a more divergent approach, which was described by Simon (1978) as procedural rationality. To Simon, this places more weight on the selection of choices made and justifying individual behaviour in complex and dynamic circumstances. On this perspective, Simon (1978, p.14-15) indicated that:

“The strategy does not work, however, when we are seeking to explain the decision maker’s behavior in complex, dynamic circumstances that involve a great deal of uncertainty, and that make severe demands upon his attention. As economics acquires aspirations to explain behavior under these typical conditions of modern organizational and public life, it will have to devote major energy to building a theory of procedural rationality to complement existing theories of substantive rationality. Some elements of

such theory can be borrowed from the neighboring disciplines of operations research, artificial intelligence, and cognitive psychology; but an enormous job remains to be done to extend this work and to apply it to specifically economic problems”

A strong proponent of bounded rationality, Williamson (1984) indicates that transaction costs are backed by two major assumptions that differentiate them from the neoclassical approach. Within the first assumption, human agents are under the provisions of bounded rationality. The second assumption is that agents are exposed to opportunism. With the fact that the neoclassical definition of rationality is ignored, NIE retains the common assumption of scarcity and competition.

Accordingly, Coase (1937, 1988) who is commonly associated with transaction costs indicates that under NIE, transaction cannot end up costing nothing as is asserted by neoclassical economics. In this regard, institutions are important when it comes to dictating the efficiency of the market. Scrutinising institutions from a more dynamic position, it is significant to indicate that in a diverse society, rules on the same issue differ from one another for various reasons. The differences in the rules can be justified by the fact that societies evolve under different geographical and psychological situations, which makes it impossible to achieve uniformity. Regarded as an evolutionary path that is determined by past and initial conditions, (North, 1990) describes it as the path of determinacy.

By striving hard to uphold institutions, it is significant to acknowledge the fact that rules need not be uniformly followed. It is also important to note that rules differ in their capacity for change. For the case of formally written rules, the right incentives such as technological advances can drive the required changes. On the contrary, informal rules which are strongly linked to societal cultures take a long time to change. According to North (1990, 1991, 1999), the discrepancies may hinder changes initiated by a nation.

To conclude, the present study focuses on investigating the NIE dynamics of change (formally and informally) posted above. The focus of NIE in pointing out the role of institutions allowing British MNEs to advance to the KSA remains significant and the focal point of this study. The determinants are directly affected by the transaction and coordination costs, which were postulated and strongly advocated for by NIE while being rejected by traditional institutional

economics. The determinants that provide the right incentives are determined by both formal and informal institutions. Besides this, NIE form the backbone of the analytical framework of investigating major issues presented by this study. As asserted above, the main issue is defining the relationship between the available institutional frameworks in the KSA and the performance of British MNEs in the country. NIE is significant here because it provides contextual coverage of the association of formal and informal institutional obstacles and their effect on economic progress.

2.3.1 New Economic History

Historical studies carried out on the new economy attempts to describe the evolution of economies and development within a given time (North, 2000). Such an approach depicts a macro trait that involves the NIE, which is served with the task of ensuring that there is change in institutions in an attempts to boost the growth of a country (North, 2000). Additionally, North provides a detailed report on the difference found in some countries, suggesting that institutions which develop lower costs of transaction are considered the main determinants of economic performance (North, 1990). He argues that dependency on path and history are the most crucial aspects in explaining development of institutions. North (1990) further indicates that not all institutions are effective, meaning that the incompetent institutions may last longer and this hinders economic growth.

North (1990) posits that there are two important catalysts that are involved in the process of institutional change. These are changes in prices and inventions in technology. When dealing with such changes, one or both parties involved in a contract may discover that it is easier to modify the rules or terms of the agreement, thus giving way to introduce a new institutional arrangement that will benefit both parties (North, 1990). Ideally, the change in population is considered as an important determinant of changes in price (North, 1990). However, changes in technology and cost of information are also a major source of institutional change (North, 1990).

2.4 Constituents of New Institutional Economics

The extensively covered issues in NIE are transaction costs, principle-agent theory and property rights (Clague, 1997; Dollery, 2001; Doner and Schneider, 2000).

2.4.1 Transaction Costs

Coase (1937) is given much credit when it comes to the development of this constituent of NIE, a facet that was further advanced by established academics such as Williamson. This component of NIE indicates that transactions are not costless as advocated by the neoclassical dispensation. According to Williamson (1985) and Doner and Schneider (1999), they indicate that costs reduce the process of transactions, specification of available assets and dealing with the ambiguity related to human interaction. Transactions costs are sometimes linked to causing market imperfection due to the high price of acquiring information but with institutions available, such deficiencies are easily dealt with.

The efforts of Coase (1937) and Williamson (1985) concentrated on how organisations both in public and private sectors can reduce their transaction costs. On the other side of the spectrum, North and other scholars have diverted their attention into analysing institutions at a macro level and how they affect the increase or decrease of transaction costs, mainly the efficiency of the property rights, customs and laws (North, 1990, 1991, 1999; Doner and Schneider 1999). Therefore, in the contextual analysis of NIE, transaction costs play a central role in identifying the highs and lows of market based transactions in various institutions.

2.4.1.1 Concept of Transaction Costs

This branch of NIE was highlighted through the work of Coase (1937) on the nature of the firm and further upgraded by Williamson. It analyses the fact that transactions are not costless and according to Williamson (see Williamson, 1985; Doner and Schneider, 1999), they increase with the frequency of transactions, the specificity of the assets involved, and the uncertainty connected to human interaction. It is these transaction costs, due mainly to the cost of acquiring and processing information, that create market imperfections that lead to market failures.

The importance of transaction costs theory has made analysts cover it in many different ways. Coase and Williamson looked at the conditions under which firms in the private and public

sector could reduce the transaction costs. Institutions have been considered by North and others, generally at the macro level, and their effect in minimising or increasing transactions costs, in particular, the strength of property rights, laws and customs (North, 1990, 1991, 1999; Doner and Schneider 1999). Thus, transaction costs are at the heart of the NIE analysis of the efficiencies and inefficiencies of market-based transactions in different institutional contexts. The main aim of NIE is to reduce transaction costs by creating the right institutions. This is external to the firm and is related to the environment where MNEs are operating. It is not easy for MNEs to control this all of the time, especially in the short term.

In a firm, an entrepreneur can decide to decrease the cost of transacting business by managing the tasks involved (Roe, 1994). The internal institution introduces different forms of transactional costs which are referred to as the problems related to incentives, information flows, monitoring and performance assessment (Roe, 1994). In general, all the existing methods of economic institution do incur some costs (Roe, 1994). The overall setup of a firm is subject to relative costs that are involved in institution transactions under alternative institutional arrangements (Roe, 1994).

The economic theory is said to treat the firm as a single collection of technology, inventory, machinery, working capital and overall workers (Roe, 1994). If all these inputs are put together in a black box, the result is quality products which yield profits. The economic theory is considered more of a management structure in the current economy (Roe, 1994). The firm will do well if the managers can coordinate successfully when performing the firm's activities. If they do not work together and get to the right people and match up the standards of the current technologies and markets, they and the firm will fail. In simple terms, the top management of the firm which includes the shareholders, senior directors and managers determines how the firm's activities are run. This is the strong relationship that is recommended to drive the firm to the next level in terms of profit (Roe, 1994). In the current situation, the new economic theory is seen to play an important part in various disciplines such as accounting, finance, management and other sections that are related to economics (Roe, 1994).

2.4.2 Principal-Agent theory

The significance of the principal agent (PA) theory is highlighted by its ability to analyse management performance of an entity in various arenas scrutinising at a macro or micro level, and assessing the relationship between the principle (company shareholders or law makers) and agents (managers), in this case, the managers. According to Eisenhardt (1989), this particular construct offers extensive coverage of the information systems, risks and incentives. The diversity of this theory has been made relevant in other disciplines, for instance in accounting as explored by Demiski and Feltham (1987) and in economics as explored by Spence and Zeckhauser (1971). According to Fama (1980), it is also significant in finance while Eisenhardt (1988) and other scholars such as Kosnik (1987) convey that the theory is also relevant in organisational behaviour.

In NIE, this theory is used to shed more light on information imperfections and asymmetries, largely highlighting how agents can short change the principles due to insufficient information (Stiglitz, 2001; Williamson, 1985). From a beneficial point of view, PA coverage helps in identifying organisational deficiencies in a given institution and helps guide the corrective measures. One significant practical area that PA is applicable to, is in the study of corruption in bureaucracy. The coverage thrives based on its ability to bring to light the imperfect relationship between different parties. Under PA, organic reorganisation as an effective manoeuvre can be undertaken by a regulator to ensure that the interests of multiple parties are not ignored at the expense of other entities. More accountability is thus established.

In a nutshell, given that institutions are characterised by the interaction of individuals, PA remains the best tool to analyse the optimal functionality of a given institutional system. The strengths and weaknesses of institutional systems can be deduced from the prevailing relationship between principals and agents. An example of a principal is the shareholder while managers and officers in the public arena act as agents (Williamson, 1985).

The firm theory has been described as one that places an emphasis on production. It is made up of several approaches. According to Berle (1932), the moral-hazard or theory of agency identifies the concept of 'ownership separation' in most of the bigger firms. Most organisations are seen to be run by salaried managers rather than the official owners (shareholders) (Berle, 1932). In some cases, the managers may use their power or mandate to pursue personal interest (personal power, firm growth, privileges, entrenchment) at the expense of the shareholder

(Berle, 1932). Berle (1932) states that most organisations fail to consider the probability that stiff competition can discipline such managers. With regards to NIE, North (1990) claims that proper formal institutions put in place can help in determining the efficiency of governing structures available.

Berge (2012) indicates that having proper institutions in place which dictate how governance is orchestrated goes a long way in determining the level of FDI inflows. This line of reasoning is also emphasised by Kobeissi (2005), who indicates that stronger governance brings out the stable government institutions and policies, which end up becoming decisive factors when it comes to determining economic investment. As such, all indications show that inefficient institutional structures harbour poor governance which can be solved when proper dispensations are put in place to cut down on aspects such as corruption. The NIE role to governance structures with regards to the firm theory is to ensure that proper structures that safeguard the larger interests of the shareholders, as opposed to the selfish interests of the salaried managers, are implemented. Such a confirmation that stipulates the authority of the available institutions in covering the discrepancies pointed out by firm theory creates positive incentives for the shareholders to expand their investments (Coase, 1937).

Research conducted on the effect of competition on the market environment of high ranking leaders (Fama, 1980), coupled with the impact of increased competition over the corporate control markets (Manne, 1965) illustrate that all organisations do limit the concept of managerial discretion. However, a positive relationship between shareholders and managers remains a crucial tool for the management of the internal administration of a given organisation (Manne, 1965). According to studies carried out Jensen and Meckling (1976), Fama (1983), Fama et al. (1980), and Jensen (1986), agency theory has been termed as the overall language that is used for business finance.

Agency theory describes the setting of compatible incentive mechanisms to help reduce agency costs that are incurred in place of moral hazard by representatives (Jensen, 1986). The theory is a body of literature that explains more on the relationship of principles and agents as already described earlier. This theory emerged in the 1970s with Ross (1973) and Mitnick (1975) assuming the authorship of it (Jensen and Meckling, 1976). Agency costs are described as the aggregate sum that includes expenditures of the principal, expenses involved in bonding

especially by the agent and the outstanding loss (Jensen and Meckling, 1976). The residual loss represents all the potential gains that are not realised from trade as the management or principals have failed to provide good incentives for agents once their actions become unproductive (Jensen and Meckling, 1976). In a given agency framework, a leader is entrusted with the responsibility of assigning an agent tasks, but has no idea as to the level of the agent's performance or in this case, their effort. The determination of the agent will determine the level of output (Lucas, 1972). The optimal incentive contract is there to remind the principal that the agent has to be given some form of incentive to motivate them to increase their effort with the compensation determined by the nature of output (Lucas, 1972).

According to Jensen and Meckling, 1976, the 'firm' is defined as a convenient label that is useful in the gathering of contracts that have been made between the shareholders and the managers, senior managers and employees as well as the organisation, its customers or consumers and suppliers.

2.4.3 Property Rights

Property rights, as defined under NIE, have two distinct definitions: economic property rights and legal property rights (Coase, 1960). Economic property rights as pertaining to this study are the individual's rights over a commodity or asset for the purpose of using or consuming the services or goods either directly or indirectly (Coase, 1960). The economic property rights are further subdivided into three explanations (Barzel, 1997, p.1) namely:

- 1- Right to use an asset
- 2- Right to earn income from the asset and contract the terms with others.
- 3- Right to transfer ownership rights permanently to another party.

Legal property rights are recognised and enforced by the government (Coase, 1960). Coase (1960) states that if property rights are fully recognised with no costs of transactions incurred, an organisation can adopt an externality between two parties by negotiations and bargaining. In this case and in terms of its link to FDI initiatives, property rights have a significant role in NIE. North (1990, 1991, 2005) shows that both formal and informal institutions go a long way

in determining the sanity of the market place, which in turn reduces transaction costs. PR is an aspect that is highly dependent on the stability of available institutions and the ability of the available legal states being followed fully. NIE knowledge shows that improper institutions result in a chaotic business environment which is unfriendly to MNEs (North 2005). With good PR and a stable legal regime, investment optimisation can be achieved. As explained further by Coase (1960) and linked to the concept of institutionalism, PRs are the appropriate incentive giving legal structures. This is because standard institutional knowledge indicates that the stability of the available formal and informal institutions that influence the performance of the market, is directly linked to the level of FDI inflow in any country.

Furthermore, Coase (1960) proved that if the government is involved, property rights do not have to be well organised. Coase (1960) indicated that the result of such a matter would be effective regardless of who the legal owner of the property rights is, but the outcome depends on the nature of property rights being applied. If the costs of transaction are present, systems involved in property rights may show different results when it comes to efficiency (Coase, 1960).

According to Grossman and Hart (1986) and Hart and Moore (1999), matters concerning property rights can also be used in the theory of incomplete contract. The idea of incomplete contract is derived from the larger category of contract theory, which can also be subdivided to cover complete contract theory. According to analysts, the idea of incomplete contract theory was developed by Stanford Grossman, Oliver Hart and John Moore (Bolton and Dewatripont, 2005). It is relevant to appreciate that incomplete contract theory has a prevalent place in NIE given that the former has a direct implication on the governance structures. The idea of the incomplete contracts economic theory combines all the insights of transaction cost economics (TCE) that are concerned with the overall significance of contracting costs and limited rationality that are found in the theory of agency (Grossman and Hart, 1986; Hart and Moore, 1999). This theory emphasises the various structures in an organisation that use the property rights in the process of resolving issues that arise in the case of incomplete contracts (Grossman and Hart, 1986; Hart and Moore, 1990). As such, it provides a clear plan for interpretation of different organisational structures on the basis of rights ownership and control of different assets (Grossman and Hart, 1986; Hart and Moore, 1990). Williamson (2000) criticises the incomplete theory as a large influencer of property rights which is more concerned with

proving the perfect investment incentives while neglecting future inefficiencies. This theory is no doubt relevant, prompting the question whether it is a substitute for or a complement to NIE. The similarity of these two separate dockets is that they concentrate more on maintaining market sanity through dealing with transaction costs and largely, property rights.

The TCE theory illustrates that ownership of properties influences the amount of incentives needed to invest in the parties involved (Grossman and Hart, 1986; Hart and Moore, 1990). Difficulties in drafting reliable contracts based on the connection between investments and the potential resourceful behaviour coupled with the ex-post renegotiation may arise due to trade benefits (Grossman and Hart, 1986). Such risk may lead to increased cases of under-investments (Grossman and Hart, 1986; Hart and Moore, 1990). A possible solution that may solve the problem is to change the allocation process of assets ownership in a particular trade. The study shows that the most appropriate form of ownership structure is assigning the most powerful roles to the party that generates the highest surplus in a given organisation (Grossman and Hart, 1986; Hart and Moore, 1990).

2.5 Arrangement of Institutions and Theory of the Firm

The institutional environment is made up of rules and customs that are dependent on the economic side. The NIE concentrates on the terms that are made by some entities that are in need of governing their association (Williamson, 1996). Williamson (1996) refers to such institutions as the institutions that govern different entities which include agreements in organisations and business firms. Williamson (1996) argues that the studies done on governance are considered more straightforward than those conducted on the institutional environment. Growth and income distribution are important aspects in an institution's growth curve (Williamson, 1996). Studies done on governance (Holmström, 1989; Radner, 1992; Milgrom and Roberts, 1992; Holmström and Milgrom, 1994; Buckley and Michie, 1996; and Hart, 1995) have shown that there is an improvement in growth in comparison to the studies done on the nature of institutions.

The theory of the firm is a production theory (Spulber, 1989). The "firm" in this case has been defined as a production function or simply a set of possible production outcomes (Spulber, 1989). Similarly, it has been defined as an entity that helps in transforming inputs to outputs.

If important aspects such as prices, technology and demand patterns are provided, then the main role of the firm is to maximise profits with production plans being technologically feasible (Spulber, 1989). In this case, the firm is seen as an entity that faces a serious decision making process including the amount of output to be produced and the skills that should be used to attain this amount of output. The size of the firm and product range is shown by costs of production or economies of scale, while the nature of the economy determines the production of a firm (Spulber, 1989).

The conventional theory has proven to be rather useful in trying to comprehend the pricing and other output decisions to be made and also how they react in an economic condition (Teece, 1982). The appealing of conventional theory is the systematic tractability and its use as an elegant parallel to neoclassical consumer theory that involves maximisation of profit. However, the production-function approach offers more details on what is needed in a firm (Teece, 1982). An example is the cost sub-additives which can be reflected in the study of economies of scale as it implies that a given quantity of a specific product output can be produced efficiently once produced together. However, this does not give a clear explanation as to why the production should happen in a particular firm. According to Teece (1982), when an organisation has multiple locations, it can provide opportunities to combine their facilities through a contract to share one facility allowing them to operate with higher levels of output. Integration of the firm or the working together of these firms is dependent on the total cost of drafting a contract (Teece, 1982). With proper institutions in place as deduced by NIE (North, 1990), maximum output can only be achieved through the proper synchronization of various relevant factors. For instance, the attainment of a contract by an organisation which has multiple places can be best achieved if proper legal structures are in place.

The black-box provides a model in this case; a system in which one views production inputs and outputs (Rosenberg, 1982). The focus is on the production process and not the firm which allows an organisation to own or work on several production processes at one time (Rosenberg, 1982). For this reason, the production-function approach appears inadequate to explain what happens in the field of business that include practices such as vertical integration, acquisitions, product-line diversification, long-term contracting, franchising, joint ventures and transfer pricing (Rosenberg, 1982). Nor can it explain the processes involved in the regulatory plan.

The NIE concept views the firm as an organisation that deserves to undergo the process of economic analysis following the right procedure (Rosenberg, 1982).

2.6 Implications and Influence of the Public Policy

Research conducted on NIE displays strong associations with the antitrust, by-laws and other features of the public policy (Williamson, 1985). TCE indicates that mergers with no collaborations are made efficient by ensuring that there is a reduced cost of governance. Williamson (1985) approaches the matter with what he refers to as 'inhospitality tradition' that indicates that institutions are sometimes engaged in business practices that are non-standard including vertical integration, franchising, tie-ins, customer restrictions, and many more. Such firms often operate to ensure monopoly gains (Williamson, 1985). Some assertions may be made that the concept of vertical integration should not necessarily decrease competition, and that such assertions may provide protection against such contracts (Joskow, 1991).

While studies on NIE claimed that business practices that are non-standard may help decrease the costs of transaction, researchers such as Peltman, Posner, and Bork showed the practices mentioned above may not reduce the level of competition among the institutions and the nature of vertical restraints depends on TCE (Meese, 1997). For this reason, NIE has contributed much to the changes in the economy, although the impact made has not yet been recognised. Further, both NIE and TCE are said to have a direct implication for several other contracting practices and regulations (Barker and Chapman, 1989). Baker argues that, closed agreements made in labour markets, can be useful in the protection of job training of workers rather than being used to exploit a monopoly interest.

Research carried out by Crocker and Reynolds (1993) on optimal contract design, particularly the procurement process of Air Force contracts is seen to serve as a perfect example of public policy when goods and services are purchased by the government. Other contracts that are done between government agencies and other organisations, including franchising contracts such as cable TV, can be easily evaluated using a TCE model (Crocker and Reynolds, 1993). These are examples of the extent to which opportunism practised by the state may affect the incentives scheme of the private organisations when making investments. This phase is important for

communist states where the political and economic reforms need a lot of upgrading of incentives for private investments (Levy and Spiller, 1994).

2.7 Successes and Challenges of NIE

Considerable research and work appear in various journals focusing on trade without mentioning the work of Coase (2000), costs of transaction or the crucial factors responsible for growth of an economy, with no mention of institutions or North's work, either. Originally, North recognized a wider audience when it came to institutional analysis, although ideas from authors such as Coase and Williamson contributed much in areas such as law, industrial institutions, economics, and managerial science (North, 1992). This opening occurred due to the failure of existing strategic economies to build a successful model of market economy as described by North. North's (1992) analysis was highly useful in explaining underdevelopment, thus it prompted much considerable enthusiasm among the targeted community. The Coasean-Williamsonian approach on the one hand enjoyed a more cautious pace of acceptance and it was seen to pose some challenges to the principal model, thus upsetting the whole setting of the standard micro-economics (Bylund, 2011). The Northean analysis, on the other hand, further explored new territories and avoided some of the challenges that could slow the process down (North, 1992). The Williamsonian approach became rather influential in analysing the strategic behaviour in marketing, and other decision-making matters (Bylund, 2011). Coasian ideas, on the other hand, focused on law and economics (Bylund, 2011).

Research was carried out and completed to find a significant correlation between the progress in terms of GDP and other variables in an institution such as political freedom, property rights, civil liberties, economic freedom and institutions that support cooperation including political instability and religion (Shirley, 2008). These "institutions" are not described as particular rules or customs, but general abstraction that is subjective to rankings of corruption in the government, concept of law, bureaucratic quality, freedom of expression, or situations that researchers may deem as institutional quality (Shirley, 2008).

Regardless of the measure of these variables, they have existed showing significant correlations with the economic growth in the long term (Shirley, 2008). The correlations help to clarify the

reason behind rapid growth (Shirley, 2008). Studies done using institutional proxies in the growth of a given country seem to deflect from NIE's model which stressed the importance of understanding different organisations (Greif, 2006). Such work seems to ignore the rules and customs that are crucial in determining the functioning of different regulations and laws in a given institution (Greif, 2006). International proxies also act against North's ideas that identical laws or rules yield different results across different states (North, 1992). Previous attempts to analyse the effects of institutions on the growth of a country have evolved into more sophisticated models (Daron, 2001; Simon, 2002; James, 2005). The authors employ similar institutional models that are used in other studies as they look at a detailed context on historical events that measure urbanisation, population density and mortality rate of the settlers (Daron, 2001; Simon, 2002; James, 2005).

The universal recognition of NIE's relevance, has raised questions as to whether the NIE model is an advancement of the neoclassical model, or can rather be viewed as a new model. Authors such as Williamson (2000) and North (1992) among others, agreed that they were creating a new model that could counter the neoclassical model. NIE accepted the contribution made by the neoclassical model which helps us understand the effect of scarcity, existing competition as well as overall effectiveness of the tools involved (Williamson, 2000). A major assumption of the standard neoclassical models was overturned by NIE once Coase (2000) insisted on the positive transaction costs.

Some of the early literature done on NIE shows that the ideas put forward by Coase (2000) can contribute much in the neoclassical model if several modifications are made. One adjustment is limited rationality, where people's ability to choose is controlled by information; however, it works together with available preferences once an alternative opportunity presents itself (Eggertsson, 1998). The opportunities in this case are stipulated by institutions, especially the legal section. The costs of transaction alone cannot adjust the neoclassical model, but they can transform it (Furubotn and Richte 1997). This transformation has not been recognised fully by most of the institutions, and therefore studies done on NIE, make use of contradicting assumptions (Furubotn and Richte, 1997). The assumptions include zero costs of transactions together with positive costs of transaction costs in a similar model (Furubotn and Ritche, 1997). As indicated by Coase (2000), NIE assumptions can fit to this model. The new model on transactional costs did present some challenges to the study on economics as it was difficult

for the neoclassical model to adopt the concept of rationality and incorporate the concept of opportunism into these models (Joskow 2002).

Despite the drawbacks portrayed in the neoclassical model, the most important aspect in the paradigm includes competition and scarcity (Joskow, 2002). The NIE may not present a successful solution to counter the neoclassical structure, but it will provide an alternative paradigm that combines many factors to make the model successful.

2.8 Transaction Cost Economics (TCE)

Transaction Cost Economics (TCE) is a framework involved in understanding how institutions influence business (Coase, 1937). The general objective of this branch of NIE is that institutions are cost-minimising transactions that are expected to change with time and advance with the changes in the nature of transaction costs (Coase, 1937). The structure of governance in this case depends on the features portrayed by the transaction therefore TCE involves a detailed research of an economic analysis (Coase, 1937). According to the article on “The Nature of the Firm,” by Coase (1937), market exchange is termed as costless. He bases his argument on the benefits of transaction costs in the organisation of firms as well as other contractual agreements (Coase, 1937).

In the theoretical framework of transaction costs, economic organisation enforces most of the costs since huge contracts are normally unfinished (Coase, 1937). A comprehensive contract outlines the actions to be taken, decisions to be made, or possible terms and guidelines of trade that depend on the affairs of a given state (Coase, 1937). Transaction costs in this case include the cost of information, monitoring, cooperation, organisation, and implementation of contracts. Coase (1937) indicates that the majority of institutions are seen to economise when it comes to the cost of transactions that are involved in market exchange. Further, the vertical integration of a firm depends on the amount of all the transaction costs involved (Coase, 1937). Williamson (2000) has also worked on the idea of economics of institutions and contracts which depicts a similar case as that of Coase.

According to Williamson (2000), the confined rationality and principled behaviour, which may manifest in the form of cheating, shirking, adverse selection and moral hazard are appropriate

in explaining ownership of structure of different firms. In this context, Williamson (2000) argues that an adjustment has to occur between the coordination costs and the order involved in a given institution, and the transactional cost involved in making contracts and agreements in the market. The above adjustment normally depends on the nature of the transaction costs (Williamson, 2000). The main component here is the total cost of conducting business as it will ensure that the process of creating, monitoring and implementing contracts is successful. The nature of a given contract involves the level of difficulty and the different categories of contract are dependent on the nature of transaction costs. This can be affected by the level of insufficient information that is needed in a transaction (Williamson, 2000). TCE seeks to get a clear understanding of the relationship between the institutional factors and non-market exchanges that are dependent on transaction costs.

2.9 Relevance of the NIE Theory to the FDI Impediments

Accordingly, Fario and Mauro (2004) indicated that factors stimulate FDI in developing and emerging markets including natural sources, sound macroeconomics, institutional quality, and educational levels. The importance of having institutional quality as the key driver for growth and investment is supported in the literature provided by Knack and Keefer (1995) and Wei (2000). Grosse and Trevino (2005) presented the NIE to explain FDI using a major focus seen in FDI decisions affected by the ability of an institution to reduce the high costs of transactions in uncertain investments environments (Hoskisson et al., 2000).

NIE theories study institutions with a focus on how institutions interact with different institutional arrangements, including the manner of how they emerge, operate and form some of the arrangements to support the production and exchange processes (Nabli and Nugent, 1989). NIE is used to show how these arrangements act to change the rules of the game. NIE is crucial in FDI since it helps in adjustment of the institutional constraints with respect to political, economic, social and technological change (Nabli and Nugent, 1989). North (1990) refers to this as the adaptive efficiency of the institutional framework. In FDI, NIE is used to explain both the determinants of institutions, specifically their evolution and to determine their impact on the overall economic performance, effectiveness and distribution in a country (Nabli and Nugent, 1989).

In this regard, several factors have been associated with the low levels of attraction of FDI in various nations. Zuhur (2011) introduces a classification of determinants that have impeded FDI in the KSA. By acknowledging this particular structural discrepancy, the present study sees it as significant to scrutinise the role of institutions, that is, both formal and informal, in justifying the dismal performance of MNEs in the KSA. Using the works of established academics such as (Coase, 1937; Williamson, 1981; North, 1971, 1990, 1991, 2000; Addison and Heshmati, 2004; Ali et al., 2010; Asiedu, 2005; Buchanan et al., 2012; Dunning, 2000; Dunning and Lundan, 2008; and Cantwell et al., 2010) who are just but a few of the numerous researchers concentrating on extrapolating the role of institutions in creating favourable conditions that support FDI, it remains relevant to expound on the provisions of the New Institution Economics when analysing the situation of the KSA. According to Ramady (2010), the persistent downward trend of the KSA's performance with regards to FDI, validating the state of its institutions as per the provisions of the NIE, remains the only effective tool available. Also, as reviewed by Berge (2012) who scrutinises FDI relationship between Norway and Myanmar, much emphasis is given to the role of institutions in occupying a dynamic position that determines the rate of performance.

The major contribution of this research is to have a clear understanding of the effects of institutions on the FDI policy (Asiedu, 2006). In this context, there is limited empirical work completed on the FDI policy working with the institutions and its effects on inward FDI in the MENA region (Asiedu, 2006 and Trevino et al, 2008). The NIE theory, specifically the work of North and Ostrom, provides a better understanding of how countries can attract more FDI and some of the institutional elements that affect the choice of location made by the MNEs. The work of North in the field of NIE has been used widely on major business issues internationally (Grosse and Trevino, 2005). However, the NIE methodology has not been fully used in the KSA to study the effects of FDI policy and how the institutions work when it comes to the applications for licenses for inward FDI. The majority of literature has focused on the formal institutional factors, and in most cases, the use of cultural dimensions to focus on informal determinants (Li and Filer, 2007). For this reason, the role of informal institution in FDI has had little attention in the literature with a bulk of the studies focusing on the formal institutions and their effect on FDI flows (Li and Filer, 2007; Ali et al., 2010; Pajunen 2008). According to Williamson (1991), informal institutions are treated as exogenous forces which may change the benefits of using the formal structures. For this reason, the study takes into

account the role of formal and informal institutional factor since they influence the motives of MNEs engagement in FDI.

To favour FDI as a necessary precursor of economic growth, host territories have to significantly synchronise the operation of their administrative and legal systems. Applauded by experts such as Williamson (1991), institutions remain the crucial factors that dictate FDI. Besides being rated as the factor that verifies the level of FDI inflows, the potential benefits that can be accrued from foreign investment initiatives are also determined by a comprehensive institutional framework. According to Alfaro et al. (2004), initiatives put in place to increase the FDI such as making technological and productivity advances cannot be of any significance if weak institutions are still prevailing. For instance, in the case of financial institutions, their weakness acts as a great impediment to the benefits that can be accrued from the spill over effects and technology among other factors.

The significance of institutions has been brought to light with the extensively emerging literature that relates FDI performance to various institutional aspects, for instance the performance of FDI as a subject of its potential benefits. According to Hoskinsson et al. (2002), the significance is deduced from the fact that stable institutions in an ideal business environment reduce the transaction costs and level of uncertainty, a phenomenon that enables diverse firms to interact within the market.

Extensive discourse on varying institutional impediments and the level of FDI inflows has been carried out (Singh and Jun, 1995; Bevan and Estrin, 2000). Schneider and Frey (1985) concentrate on socio-political instability, Helleiner (1989) concentrates on the state of infrastructure and the revenue collection system while Bevan et al. (2004) concentrate on the reforms of formal organisations such as the banks. As analysed by El-Said and McDonald (2002), bad quality of all the above-mentioned institutions is an area that deters or frightens foreign investors away because of the high costs. In a more location specific study carried out by Trevino and Mixon (2004), institutional factors are deemed to have a direct correlation to the FDI performance of Latin American countries compared to the justification provided by microeconomic factors.

To summarise this analysis, it is significant to acknowledge that institutional factors remain relevant in determining insider and outsider status. With regards to the MENA region, the existing literature is quite limited and lacks empirical support of the stated factors. This provides the impetus for embarking on this research, which it is hoped will make a valuable, much needed contribution to the limited literature available. This will be achieved by analysing whether institutional frameworks justify the occurrence of these two statuses and whether foreign entities are always categorised as the outsiders

2.10 Summary

Numerous studies have been completed to prove the effectiveness of NIE. This research provides an overview of NIE as a flourishing school of thought. The approach used in NIE with regards to the behaviour of the economic model is quite diverse. The approach of NIE can be seen in important issues that have been discussed in this paper, the influence of institutions on economic behaviour and the concept of rationality. NIE has assumed a neoclassical model with some extensions to other topics related to neoclassical economics. Neoclassical economics have been probed in their capability to provide possible solutions to various economic predicaments and issues that occur in both low and high income earning countries. It seems to lack strength to help predict possible outcomes or viable policies since the transaction costs are difficult to measure. The concepts of NIE can be applied to the harsh economic problems that are seen in some industries such as food and agricultural.

At this time, there is no defined framework or theory that has been established to support the new model. The TCE is a near perfect way of describing the behaviour and a trusted way of providing diagnosis. However similarly, the NIE is considered weak in dealing with uncertainty and modeling risk that is associated with prices or the economic environment. Such challenges show that NIE is prone to weaknesses that require attention, which makes it a dynamic field to explore as it has tremendous opportunities that need more refinement and improvement.

Chapter 3 : Institutions in International Business

3.1 Introduction

International business (IB) is a subject area that deals with analysing the behavioural strategies of business partners in different countries or studying partners in the same country, but comparing them to others in different countries (Henisz and Swaminathan, 2008). The authors who provide this delineation acknowledge the fact that IB gives much attention to studying various institutional characteristics that affect business transaction costs from one country to another. For example, in the case of the KSA, it is the intent of this research to justify its institutional features that make the cost of doing business in the country vary from other economies in the region.

According to Henisz and Swaminathan (2008, p.537), the institutional characteristics cover the regulative, normative and cognitive domains. The three domains affect various organizational aspects of multinational entities, which, as described by the two scholars include “location choice, the organization of their local subsidiary, choice of technology, capital and labour staffing, and the sequence of investment” (Henisz and Swaminathan 2008, p.537). All these factors that are directly linked to survival of multinationals in any given country are affected by the existing institutional features, which makes it necessary to study the latter in relation to IB. Adhering to the title of the subject matter, this section of the paper comprehensively scrutinises how the two (institutions and IB) are interlinked to determine the level of FDI.

This chapter will begin by acknowledging the type of institutions that are found within IB. It follows with a discussion of multinational firms and the international business manoeuvres that are tied to the FDI. The benefits of FDI to firms and host countries are also scrutinised, followed by highlighting global distribution of FDI in the world, with a particular focus on the MENA. The chapter then examines the theories of internalisation with Hymer’s Transaction cost theory, Dunning’s Eclectic Paradigm, and then returns to the earlier literature on NIE. North’s work and Hofstede’s accomplishments are analysed here and both are relevant to NIEs, in particular, Hofstede’s categories would work in the Arab world in terms of main cultural powers.

3.2 Multinational Enterprises (MNE) and International Business (IB)

A multinational enterprise (MNE) is a company which operates in several nations, and most of them have approaches that are recognised worldwide. McDonalds is a well-recognised food brand MNE, while General Motors is a MNE from the automotive industry. Sony, LG and Samsung are MNEs from the electronic sector and Shell, Exxon Mobil and BP are examples of MNEs from the energy sector. Multinational corporations can come from any market with any structure and often make changes to the nation that they ultimately endeavour to take their services and goods to in the long run.

A quick search using the terms “how many multinational enterprises are in the world” provided a list of 294 companies. However, a further search provided an estimated 60,000 firms followed by a statement that of the 50 largest MNEs, many of them originated from the United States, Western Europe, or Japan (UNCTAD, 2014). A table (3-1) of the top 50 MNEs is found below that demonstrates only a fraction of the total number of MNEs.

Table 3-1: Top 100 Non-Financial Transnationals Ranked by Foreign Assets

Rank	Corporation	Country	Industry	Foreign Assets (in Millions of dollars)	Total Assets (in Millions of dollars)
1	General Electric Co	United States	Electrical & electronic equipment	331 160	656 560
2	Royal Dutch Shell plc	United Kingdom	Petroleum expl./ref./distr.	301 898	357 512
3	Toyota Motor Corporation	Japan	Motor vehicles	274 380	403 088
4	Exxon Mobil Corporation	United States	Petroleum expl./ref./distr.	231 033	346 808
5	Total SA	France	Petroleum expl./ref./distr.	226 717	238 870
6	BP plc	United Kingdom	Petroleum expl./ref./distr.	202 899	305 690
7	Vodafone Group Plc	United Kingdom	Telecommunications	182 837	202 763
8	Volkswagen Group	Germany	Motor vehicles	176 656	446 555
9	Chevron Corporation	United States	Petroleum expl./ref./distr.	175 736	253 753
10	Eni SpA	Italy	Petroleum expl./ref./distr.	141 021	190 125
11	Enel SpA	Italy	Electricity, gas and water	140 396	226 006
12	Glencore Xstrata PLC	Switzerland	Mining & quarrying	135 080	154 932
13	Anheuser-Busch InBev NV	Belgium	Food, beverages and tobacco	134 549	141 666
14	EDF SA	France	Utilities (Electricity, gas and water)	130 161	353 574
15	Nestlé SA	Switzerland	Food, beverages and tobacco	124 730	129 969
16	E.ON AG	Germany	Utilities (Electricity, gas and water)	124 429	179 988

17	GDF Suez	France	Utilities (Electricity, gas and water)	121 402	219 759
18	Deutsche Telekom AG	Germany	Telecommunications	120 350	162 671
19	Apple Computer Inc	United States	Electrical & electronic equipment	119 918	207 000
20	Honda Motor Co Ltd	Japan	Motor vehicles	118 476	151 965
21	Mitsubishi Corporation	Japan	Wholesale trade	112 762	148 752
22	Siemens AG	Germany	Electrical & electronic equipment	110 462	137 863
23	ArcelorMittal	Luxembourg	Metal and metal products	109 602	112 308
24	Iberdrola SA	Spain	Utilities (Electricity, gas and water)	108 679	127 235
25	Johnson & Johnson	United States	Pharmaceuticals	96 803	132 683
26	Nissan Motor Co Ltd	Japan	Motor vehicles	95 228	143 029
27	Hutchison Whampoa Limited	Hong Kong, China	Diversified	91 436	105 169
28	Fiat S.p.A.	Italy	Motor vehicles	90 985	119 474
29	Pfizer Inc	United States	Pharmaceuticals	90 403	172 101
30	BMW AG	Germany	Motor vehicles	88 370	190 511
31	Wal-Mart Stores Inc	United States	Retail & Trade	88 206	204 751
32	Daimler AG	Germany	Motor vehicles	87 257	232 023
33	Telefonica SA	Spain	Telecommunications	87 156	163 654
34	Mitsui & Co Ltd	Japan	Wholesale trade	86 023	107 016
35	Ford Motor Company	United States	Motor vehicles	79 092	203 752
36	CITIC Group	China	Diversified	78 602	565 884
37	Statoil ASA	Norway	Petroleum expl./ref./distr.	78 185	144 741
38	Airbus Group NV	France	Aircraft	77 614	128 474
39	Novartis AG	Switzerland	Pharmaceuticals	71 941	126 254
40	Procter & Gamble Co	United States	Diversified	70 981	139 263

41	Hon Hai Precision Industries	Taiwan Province of China	Electrical & electronic equipment	70 659	77 089
42	General Motors Co	United States	Motor vehicles	70 074	166 344
43	Anglo American plc	United Kingdom	Mining & quarrying	68 955	71 165
44	BHP Billiton Group Ltd	Australia	Mining & quarrying	67 649	139 178
45	Repsol YPF SA	Spain	Petroleum expl./ref./distr.	66 011	89 613
46	International Business Machines Corporation	United States	Electrical & electronic equipment	60 841	126 223
47	BASF SE	Germany	Chemicals	58 323	88 644
48	Rio Tinto PLC	United Kingdom	Mining & quarrying	58 059	111 025
49	Microsoft Corporation	United States	Pre-packaged software	57 087	142 431
50	Unilever PLC	United Kingdom	Diversified	55 769	62 664

Source: UNCTAD (2014)

Hymer (1960) in his study on the MNEs' internalisation process, provided a crucial theory for MNEs to explain FDI, and the reasons why most corporations become internalised. However, exposing the scarcities of FDI was firstly mentioned in the work of Hymer (1960). In this regard, Hymer (1960) identified two important determinants of FDI. The first is the removal of competition, where the profits accrued in the international arena and the specific firm advantages that are developed for the companies while in their home countries. The second determinant was found to be the removal of controls, and this allowed nations to operate freely without restrictions, therefore the advantages are given for some to exploit their firm-specific advantages globally (Hymer, 1960). In conclusion, Hymer attempted to differentiate the rate of return hypothesis due to several observed characteristics of international investment. Therefore, MNEs according to Hymer (1960), appear due to the market failures that led to a deflection from high competition in the final product market. Denisia (2010) indicated further that transnational companies face some adjustment costs when they invest abroad.

3.2.1 MNE Subsidiaries

Poutsma et al. (2006) studied the subsidiaries of US and European multinationals and found that the management in those subsidiaries face pressure especially from the host institutional environment, and from within the MNE. Rosenzweig and Singh (1991) suggested that subsidiaries may experience pressures that are similar to that of the local companies in order for consistency with the rest of the subsidiaries of their MNE. The experience of different subsidiaries results from pressures directed towards conformity or adaptation since they operate under different contextual variables (Rosenzweig and Nohria, 1994; Rosenzweig and Singh, 1991). The major variables include: organisational factors, institutional environment, relational context, and home country factors.

Organisational Factors: One of the essential factors that has direct impact on the response of managers of the subsidiary. In this regard, since the establishment of a subsidiary is a joint venture between the MNEs and a host country, the host country is able to offer knowledge and enough guidance towards how to conduct a business in the local government (Gomez, 2004). On the other hand, if the subsidiary is founded by acquisition for instance, it might have the characteristics of the local firm, and thus, the practices of human resource seem to be similar (Rosenzweig and Nohria, 1994).

Institutional Environment: Because of being a foreign company, a subsidiary might function temporarily against some environmentally surrounded pressures particularly when the MNEs are powerful (Poutsma et al., 2006). Despite this, many aspects of the institutional environment affects the level of managers' responses of these subsidiaries to institutional duality, in addition to control system, shared knowledge at social level, and the host country culture (Kostova and Roth, 2002). The control system has obligatory laws and regulations that the subsidiary must adhere to for instance, anti-discrimination regulations (Kostova and Roth, 2002).

Relational Context: Reflects the extent to which a mutual trust between managers and employees is vital within a subsidiary, and to have healthy communication with the parent company (Kostova and Roth, 2002). Trust shows the extent to which managers and employees are able to build committed and honest relations. As a result, employees will be able to understand each other and share values and new practices, and in turn, will be able to adopt them (Kostova and Roth, 2002). Another important component is the density of internal

communication between the subsidiary's managers and the parent company where, density of communication is positively facilitated and new practice adopted (Ghoshal and Bartlett, 1988).

Home Country Factors: An important factor that facilitates the ability of MNE's managers is the competitive position of the home country in the global market because it can allow MNE's managers to transfer the practices of management overseas (Zhang, 2003). An example is from the US that obtain perfect competitive position in the industry of technology where managers tend to adopt the parents' practices to have some additional competitive advantages (Zhang, 2003).

3.2.2 MNE Key Objectives

One key objective of MNE includes taking advantage of the shared social knowledge, regulatory system, and the culture in the host country (Kostova and Roth, 2002). From the literature, the regulatory system includes the laws and regulations that the subsidiary is required to abide by (Kostova and Roth, 2002). These systems may deter the use of certain practices within subsidiaries. A perfect example would be laws that may be imposed against discrimination in employment. The shared social knowledge refers to how well-informed employees are about the laws imposed by the MNE (Kostova and Roth, 2002).

Another objective is the establishment of a joint venture between MNE and a partner to the host country, where the host country is in a position to provide enough knowledge on how to conduct business in the local region (Gomez 2004). When a subsidiary is set-up through acquisition, it may retain the initial characteristics of a local firm. Therefore, the practices of the HR department may be similar to the local practices (Rosenzweig and Nohria, 1994). There is also a Greenfield subsidiary which is established as a brand new entity which was not present previously (Rosenzweig and Nohria, 1994).

Local dependence is another objective and is referred to as the level to which a subsidiary can draw on its sources directly from the local environment so that it can attain the correct inputs of production (Rosenzweig and Nohria 1994). Studies show that the more dependent it is, the more likely it is to be analogous to the local practices already in place (Rosenzweig and Nohria, 1994).

The position of the home country which may turn out to be competitive in the global market enable the MNE managers to transfer the management practices abroad (Zhang 2003). Take for example the US that has an established superior position when it comes to the technology industry. For this reason, the MNEs in this industry may be forced to adopt the practices of the parents so that they can gain a competitive advantage (Zhang 2003). Similarly, in cases where the culture of the subsidiary is considered as having high tolerance of ambiguity, the subsidiary practices are more likely to be allowed to emulate the host country practices (Rosenzweig and Singh, 1991).

3.3 Definition of FDI and Modes of Entry

Many definitions have been provided for FDI, but a simple definition might be capital inflow from a parent organisation to its segment in another region. It can also be termed as starting and operating a business in another country (Cordesman, 2003). FDI has two major entry modes: Joint venture and Wholly- owned subsidiaries (Wang, Alba, and Park, 2013).

Joint Venture seeks market entry, technology sharing, product development is completed jointly, shares both risks and rewards, and must conform to regulations. The advantages of Joint Venture are: success is seen when competitive goals diverge and their strategic goals converge, market power and resources are small until the joining of forces, learning from each other and retaining limited access to proprietary knowledge and skills. Some disadvantages of Joint Venture are: conflicts, mistrust, ambiguity in performance, lacking support from the parent company, differences in cultural aspects, and the termination of the joint relationship.

The greenfield investment establishes a new wholly owned subsidiary, it is complex and costly, provides full control of the organisation and has returns that are above average. Acquisitions provide quick access, and one of the largest initial expansions into international locations. Provides a great market power as a result. The acquisition risk is lower than Greenfield due to easier estimations of the outcomes, attractive for well-established firms. Greenfield is high risk as it is a new business in a new country, requires elaborate assistance from consultants, business partners, competitors, new distributors, developing new operational processes and so on.

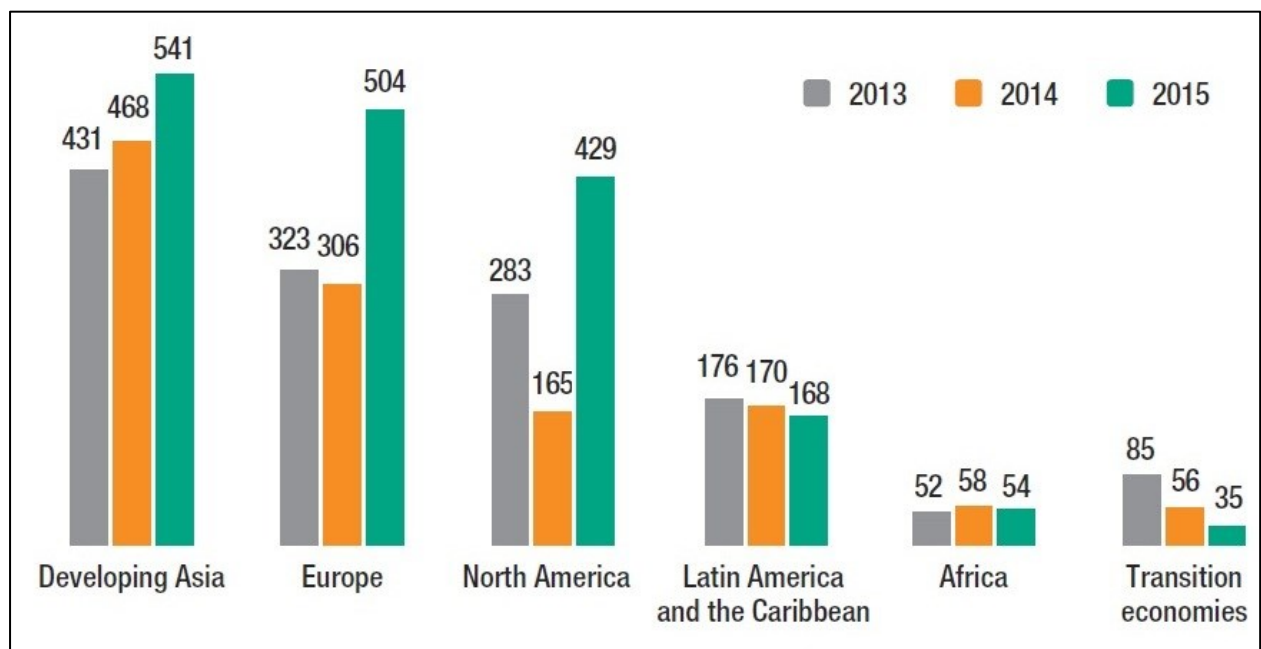
In the Gulf Cooperating Countries (GCC), the KSA has the largest population and gross domestic product, but has been slow to open capital markets to foreigners with the FDI between 1984 and 1997 in the KSA being \$4. 23 billion (Ramady and Saeed 2007; Cordesman 2003). The KSA's domestic goal towards attracting FDI has made slow progress until a change was made. The Foreign Investment Law (FIL) was introduced to spur potential investors in April 2000. This change allows 100 percent foreign ownership of projects and the associated real estate for both factory and staff accommodation (SAGIA, 2006). However, a further analysis of the SAGIA report (2006) under the barriers to foreign trade indicates that the country's requirement of foreign ventures has not been efficiently dealt with. With reference to the testimony of some international entities (SAGIA 2006, p. 595-6), the multinational players acknowledge how it is hard to operate within the country. Regardless of the earlier mentioned reforms by SAGIA (2006), it is in the same report that one of the investment barriers mentioned requires foreign entities to operate through joint ventures with home companies. The need for joint ventures emanates from the fact that foreign people cannot reside in the KSA without sponsorship from their respective companies. Foreign companies cannot own any significant property in the KSA without going through a joint venture mechanism. In summary, SAGIA report (2006) confirms that most business licences in the country are only issued if joint ventures have been formed; single foreign investors most often find it hard to obtain licences without some form of local organisation partnership.

3.4 Global and MENA Distribution of FDI

FDI provides financial development of a country, employment and technology transfer, all the while establishing access to international markets (Gestrin, 2016). The FDI flows to countries not involved as a member with the Organisation for Economic Co-operation and Development (OECD) doubled between 2012 and 2016 to about 50% of the global trend (Gestrin, 2016). According to UNCTAD (2016), FDI in 2015 was strong with an increase of 38%, part of which is attributed to reconfiguration of MNEs and the relocation headquarters. This equalled approximately \$1.8 trillion, the highest since 2008 (UNCTAD, 2016). The increase however did not spread evenly among all countries. This may be understandable, based on the openness of countries and their status as developing or developed countries such as the United States, Japan and the United Kingdom which have higher levels than developing countries can achieve (UNCTAD, 2016). The growth in FDI in Asian countries is the highest among other areas. As

illustrated in Figure 3.1 the growth of FDI is increasingly going toward global markets. The competition has become very fierce, and despite the higher growth in developing Asia compared with the other areas, it is noted that the rate of growth in 2015 compared with two years later is higher in Europe and North America. This means that, the change of attracting FDI is not limited to Asia, but also to Europe and North America; in other words, this growth may allow the KSA to have more alternatives and attract investors from different cultures. This leads to the discussion of the KSA, the efforts they have made to date and what still needs to be done to become more attractive to FDI opportunities.

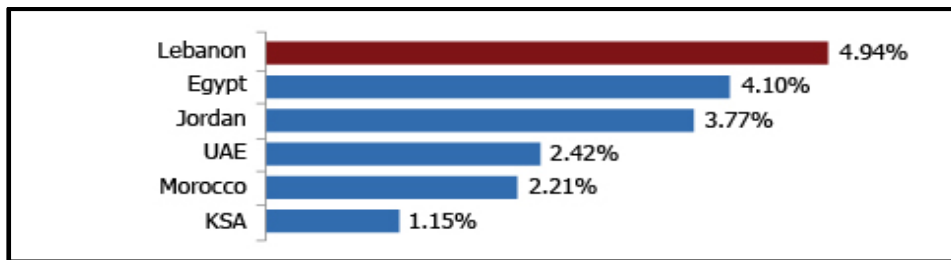
Figure 3-1: Global FDI Distribution



Source: UNCTAD (2016)

Regionally, the KSA occupies the second rank within MENA countries as shown in Figure 3.2. The natural resources available in the KSA are more abundant than other countries such as the UAE, despite, the inflow of FDI being higher in UAE. It seems, therefore that the available resources in the KSA have not been sufficiently exploited and/or the KSA still needs to expend extra efforts towards FDI attraction by providing better infrastructure and facilities.

Figure 3-2: FDI Inflows in Some of the MENA Countries (US\$ Billions)



Source: UNCTAD (2015)

In January 2004, the KSA cabinet approved the bill on reduction in taxes on FDI as part of its effort to speed up economic reforms, hasten privatisation processes and stimulate FDI (Evenett and Braga, 2005). Between 2005 and 2006, the increase in FDI inflows to the KSA was due to the opening of the region to foreign investments (Evenett and Braga, 2005). Part of the potential benefit of WTO accession relates to bolstering exports and increased FDI inflows (Evenett and Braga 2005). Responsively, legal and judicial reforms have taken place to comply with international agreements and make FDI more attractive. These reforms were received positively by foreign investors who complained at the lack of specialised commercial courts to hear disputes and the lack of appeal to rulings (Ramady 2010).

In 2008, the net FDI inflows exceeded \$35 billion, an unprecedented record that marked improvements in the Saudi investment climate (Al Ayed, 2010). Arguably, this amount represented around 2.2 percent of the world's total of \$1.7 trillion (Ramady 2010). According to Al Ayed (2010), most of these investments were in the form of joint ventures arranged under the assumption that foreign investors have a strong global network enabling locally produced goods access to foreign markets. On a contrasting note, Ramady (2010) claims that sometimes, the driving force behind FDI is not new projects or joint venture projects but rather cross-border mergers and acquisitions of existing companies which is rather small in terms of importance for developing countries. However, it is still uncertain if there is a sufficient institutional method for monitoring businesses forged under the impression of joint ventures thereafter.

According to Roberts and Almahmood (2009), the Granger causality tests were carried out in the KSA. Granger-causality is to test and determine the causal relationship between FDI and Economic Growth. According to Mawugnon and Qiang (2015), this test provides a statistical causality between FDI and GDP. It is a statistical hypothesis test for determining whether one

time series is useful in forecasting another. The test is also important because it illustrates the direction of causation between GDP and FDI when it is not certain. Therefore, the Granger causality test illustrates that it was successful in attracting FDI due to its overall economic stability (likely attributed to some unique characteristics of Arab countries and oil-exporting countries), but the FDI inflows may not have affected growth. Data from the United Nations Conference on Trade and Development (UNCTAD 2015) may support the claim as seven display (Table 3.2) a steady decline of FDI infusions for the KSA year after year since 2008. The last reported annual figures for 2012 contracted to merely one-third the size of FDI inflows of 2008 (UNCTAD, 2015).

Table 3-2: FDI Inflows – The KSA (2008-2014) Units: US\$ (Billion)

YEAR	2008	2009	2010	2011	2012	2013	2014
FDI	39.50	36.50	29.20	16.30	12.18	8.86	8.01

Source: UNCTAD (2015).

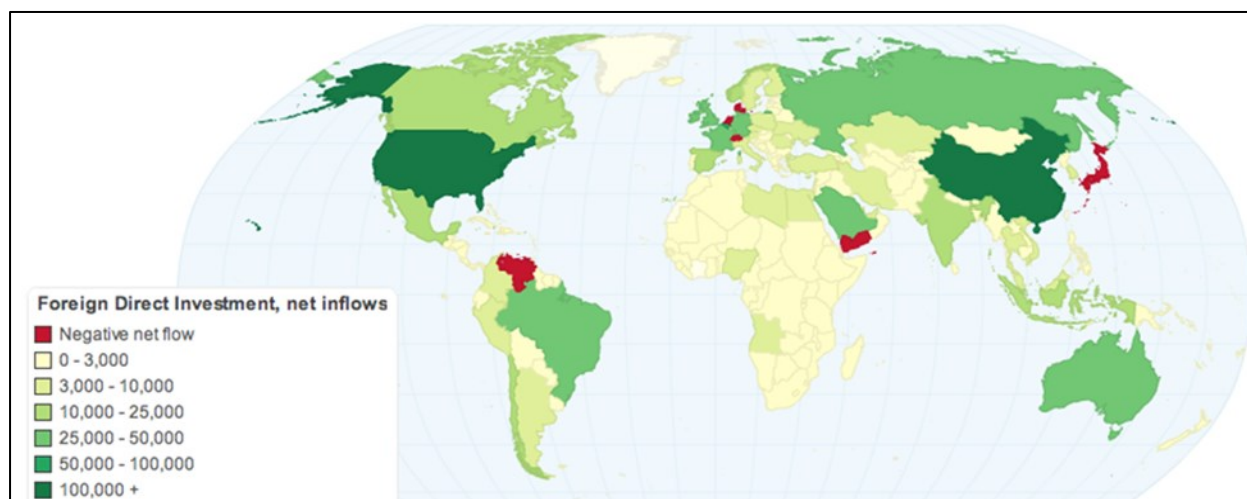
Previous studies that sought to explain FDI behaviour in different contexts in terms of numerous factors are available. There are others that evaluate from a variety of determinants in a cross-country setting such as level of corruption (Wei, 2000), institutional factors (Benassy-Quere et al., 2007) or factors based on proximity and contacts insofar as intra-Arab investments are concerned (Bolbol and Fatheldin, 2006) and source country characteristics (Roberts and Almahmood, 2009). Consequently, in the FDI literature, the eclectic paradigm is one of the most influential streams of thought in the IB literature (Buckley and Hashai, 2009).

Increase in capital inflows, especially in FDI in the past years has generated a growing body of literature in this area (Bolbol and Fatheldin, 2006). Capital flows facilitate the exchange of technological and organisational knowledge, reduces the constraints that may exist in the mobilisation of resources in a country and brings about institutional change (Buckley and Hashai, 2009). In this sense, capital inflows are seen as a source of growth and countries that adopt this strategy encourage increased flows of funds from the rich countries to the poor ones (Buckley and Hashai, 2009). Capital inflows are determined by economic factors as well as determinants that are related to the bureaucratic, political, regulatory, and judicial environment

(Buckley and Hashai, 2009). According to Lim (2001), the most crucial determinant of FDI is business or the nature of an investment climate. In a foreign country for example, a friendlier business climate helps to lower the additional costs that may be incurred in doing business. The costs are determined by factors such as labour regulations, contract enforceability, property rights, political and macroeconomic stability (Lim, 2001).

The MENA region has had average growth over the last ten years of approximately 4.7% (Mina, 2013). Around 2010, the MENA region had recovered from the 2008 – 2009 economic crises and with that expected to see continued growth (Mina, 2013). According to NCC (2011), 2008 was the year in which the KSA registered unrivaled FDI inflows. However, in 2011 a number of anti-establishment and prodemocracy movements happened and affected the short-term outlook and FDI flows (Mina, 2013). As these issues continued to change, the effects on FDI remained and while this did not directly include the KSA, the region was affected and worked towards attaining the robust level it had enjoyed in 2008. Taking the statistics presented in Figures 3.1, 3.2 and 3.3, it is clear that ahead of Africa, which is the lowest in terms of FDI inflows are members of the MENA block. A study carried out by Abbas and Mosallamy (2016) shows that the KSA and other members of the MENA region are the second lowest rated economies in terms of FDI with a number of economic reasons being associated with it. Although their study was carried out in 2016, Abbas and Mosallamy used 2011 statistics, the time when the KSA and related Arab countries were still performing well before the uprising took place. Since then, the latest statistics from UNCTAD (2015) indicate that after years of performing poorly, global FDI inflow performance has begun to improve, but countries are yet to perform like they did before the 2008 global financial crisis. As shown by Figure 3.3, the KSA is behind UAE in terms of FDI inflows, but that does not mean that the total FDI output of the country has increased.

Figure 3-3: World Distribution of FDI Inflows (US\$ Millions between 2014-2015)



Source: UNCTAD (2015).

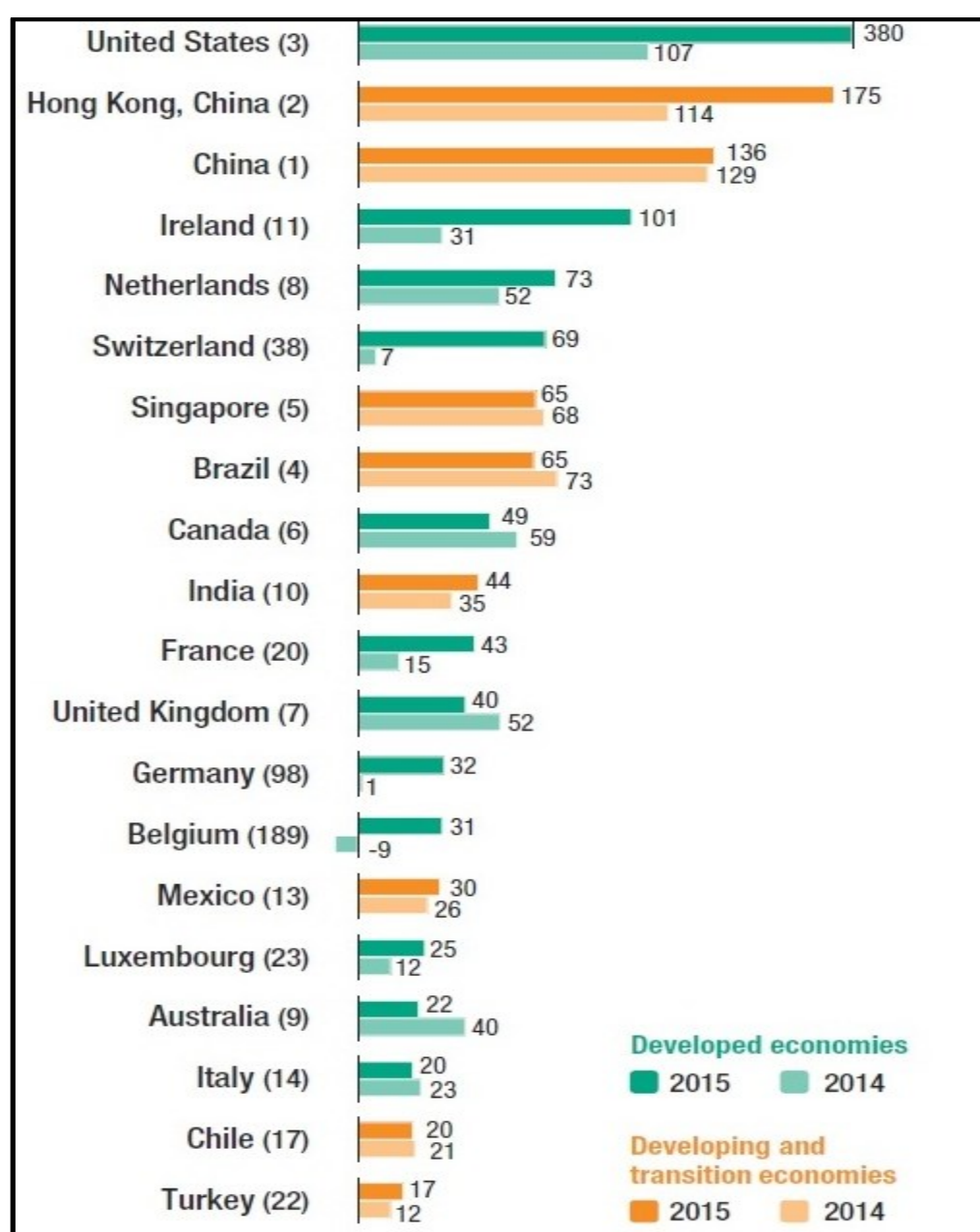
FDI have become more complex over the last couple of years since many poor countries are growing rapidly as compared to the richer ones. This is due to the shift in the origin of FDI inflows and outflows. The US FDI for example has changed over the last 50 years. Looking back to 1960, the US was home to 49% of the world's FDI, but by the year 2014 the figure had dropped to only 7% (UNCTAD, 2015).

Moreover, the World's FDI surged in the 1990s and was interrupted during the worldwide slowdown that occurred between year 2000 and 2002. The FDI trend encountered a lot of difficulties including the collapse of asset, currency and internet problems over the decade, but it has continued to remain stable and positive. For example, in 2005, FDI rose by 29% to \$916 billion, according to a report by UNCTAD (2005).

The major recipients of FDI were economies from countries such as Brazil, Russia, India and China. The four economies attracted \$144.57 billion or 16% of the total FDI inflows in the world (Buchanan, Le, and Rishi, 2012, p. 82). The major sectors such as mining, manufacturing and service sectors including electrics, mining and electronics metal and sheet, oil and gas mining, real estate and communication, gained the most due to the FDI surge in these four

countries. However, the growth of FDI has not been a smooth ride for the four economies (UNCTAD, 2005). Based on recent statistics from the UNCTAD (2015), these countries are registering mixed results but in the right direction. Figure 3.4 below shows the changes made by the four countries in 2014 and 2015 with regards to FDI inflows. As developing economies, China improved on the previous year's performance while Brazil dwindled in terms of its output. On the bright side, unlike the minimal total FDI inflows posted by the countries back in 2004, the 2015 FDI inflows of the four countries is more than double that of the figure a decade ago.

Figure 3-4 FDI Inflows of the Top 20 Economies 2014 and 2015 (US\$ Billions)



Source: UNCTAC (2016).

In the Middle East and North Africa, FDI rose from 0.5% to 4% between 1996 and 2006. This may be due to privatisation in the telecommunication industry. In Africa for example, FDI attracted about 3%, which was a fall from the previous 6% in the mid-1970s. Based on the recent report from UNCTAD (2015), this represents significant changes of FDI inflows. In 2008, the KSA hit its high in terms of FDI inwards inflows (SAGIA 2013). The trend has been on a downward spiral ever since with the country registering a decline in performance each passing year. From 39.50 billion units in 2008 to 8.09 in 2014, FDI inflows in the KSA have really dwindled. Much emphasis to justify the situation has been placed on the country's overdependence on oil and the recent economic uprisings (Abbas and Mosallamy, 2016; Global Economic Prospects, 2012 and SAGIA, 2013).

There is a greater need for organisations to come up with different modalities of exploiting the various advantages that are embedded in ownerships. The Locational Advantages and Internalisation (OLI) paradigm clearly provides the various advantages of organisations when they decide to invest outside their nations (Estrin and Meyer, 2012). The idea of raw materials is often important, and should be considered when setting up businesses outside a particular region. When setting up businesses from scratch, the source of raw materials is advantageous as it allows minimal costs and the idea of safeguarding its competitive advantage against other players. FDI is positively correlated with the placement of corporations near different raw materials (Henisz and Swaminathan, 2008).

There is clear evidence as to the location decisions of organisations when considering their geographical location. The investors from the UK can decide to invest in the KSA because of its proximity. Proximity is a significant factor given that it largely determines the correlation of two countries when it comes to economic issues. It is the factor that determines how well informed the potential investors are and the likelihood of them being allowed in the country of interest. Although no physical proximity, the KSA shares several economic ideologies with the UK such as enhancing values such as human rights and religious freedoms, an aspect that makes it more favourable for British MNEs to invest in the country. Based on evidence from the Office for National Statistics (2012) Britain witnessed saw in foreign investment earnings hit an all-time high since the dawn of 2007. As such, the economic interests and encouragements can help incentivise British MNEs to enter the KSA. Such operations can

ensure wider coverage and coordination of different aspects of the businesses in question. Cultural and power distances are also some of the determinants of a company placement in another region to ensure active participation as the next section demonstrates (Henisz and Swaminathan, 2008).

3.5 Theoretical Framework

North (1990) describes institutions as the rules of the game in a given society or, humanly devised constraints to shape human interaction. The key contribution of most institutions is related to its impact on the structure of incentives in human exchange, whether social, political or economic (North, 1990). Nelson and Sampat (2001), as cited in Murage (2013, p.12) define institutions as the “patterns of human interaction that relate to the division of labour and the mode of coordination of human activity, or social technology”.

North (1990; 1994; 2005) divides institutions as formal rules such as laws, constitutions, and regulations and informal constraints that include conventions, norms, behaviour, and self-imposed codes of conduct. Institutions set the “rules of the game,” when institutions (formal and informal) are taken into account, which means that the institutional system will be complete. A certain institutional approach that attempts to link both the macro and micro levels of analysis, and involves both formal and informal institutions, provides a promising way to improve the understanding of the different forms of the contemporary MNE (Dunning and Lundan 2008).

North (2005) introduces the institutional matrix which is composed of formal rules and constraints, as well as informal implementation characteristics. He further claims that the institutional matrix is a perfect definition of the set of incentives and opportunities found in a particular society. Therefore, the actors/characters make their choices based on subjective models which underlie its manifestation. He states that while the indicator of belief into formal rules and constraints are considered, the informal rules and constraints such as the norms and culture are equally crucial to its formal counterparts (North, 2005).

In a scenario where actors have to direct change in favour of increased FDI, North (2005) indicates that both formal and informal institutions have to move parallel to each other. This

means that without a strong emphasis on the informal institutions, formal ones alone cannot lead the anticipated change for the growth of FDI. Regardless of this particular aspect, studies carried out by Clague (1997), Dollery (2001), and Donor and Schenieder (2000) indicate that much of NIE has been extensively reviewing formal institutional components such as transaction costs, the principle agent theory, and property rights. The work of academics such as Williamson in NIE can be attributed to the latter's preference for the formal segment. This makes it significant to use relevant theories available and scrutinise the magnitude of informal institutional factors on foreign market economic dynamics. Bearing in mind that NIE is still the theoretical construct of choice to this particular study, it remains significant to utilise another body of literature in the extrapolation of other diverse angles of informal institutions that may not be revealed by NIE.

3.5.1 Hymer's Transaction Cost Theory

According to Horaguchi and Toyne (1990, p. 488), Hymer's research of the two major determinants of FDI relates to removal of competition and the advantages that some firms have in a particular activity. A claim was made that Hymer's work caused controversy as other theories exist that explained the behaviour of MNE by using the industrial organisation theory (Horaguchi and Toyne, 1990, p. 488). One of the new theories is the theory of internalisation (Rugman, 1982) and the eclectic paradigm by Dunning (1979). Both of these emphasize the imperfections of the market transaction costs and this is where the controversy arises with Hymer's work (Horaguchi and Toyne, 1990, p. 488). Horaguchi and Toyne (1990, p. 488) point out that, "the recognized essence of the direct investment behaviour all these words describe is unchanged from its exposition in Hymer's thesis."

Hymer's transaction cost theory is defined as the benefit a MNE has by having a monopolistic advantage and being able to avoid or reduce competition (Horaguchi and Toyne, 1990). This is one of Hymer's contributions to the existing internationalisation literature and is also referred to by some experts as the monopolistic advantage theory (Burgel 2000). From a general perspective, it is a theory that describes the transaction cost advantages that enables a company to compete successfully at the international arena against a crop of well-established indigenous organisations. Prior to Hymer's deduction, much of the participation of firms in foreign markets was anchored to the neo-classical theories, an aspect that is well acknowledged by Kusluvan

(2013). The second element of Hymer's work focuses on internalisation factors, which will be discussed later in this chapter.

Within the transaction cost theory, Hymer operates based on the assumption that the main reason firms move to foreign markets is not to capitalise on the low costs of maintaining market-based operations. His main assertion for the difference in performance between local and foreign firms is the fact that, regardless of the obstacles that foreign firms pass through, local entities are not built to handle such well-established competition. With regards to reducing the level of competition and maintaining a monopolistic advantage as previously stated, Hymer indicates that a foreign firm can enter the local scene and take control of the production process. This is considered as being an internalisation factor, thus eliminating any elements of rivalry (Horaguchi and Toyne, 1990). Concisely, Hymer's transaction cost theory suggests that foreign investment is motivated through rivalry and instability of the market such that foreign entities are by default deemed to thrive over the local competition. However, factoring in expert analysis, his theory exhibits several economic discrepancies with regards to the core underpinning aspects that define NIE.

The problem begins with the missing explanations of the advantages the companies have and how the companies generate those advantages (Horaguchi and Toyne, 1990). Hymer spent more time focusing on the unfairness of the exploitation across the borders. The result is a minimisation of the costs of transactions across the borders (Horaguchi and Toyne, 1990). Transaction costs include the search and information costs, which is the information that provides the determination of the good being available on the market, the price, bargaining costs, agreement costs, monitoring and enforcing the costs and other components related (Horaguchi and Toyne, 1990). These aspects can all be narrowed down to the weakness exhibited by the theory when it comes to location advantages. Hymer's neglect of this factor is exhibited when he claims that foreign entities have to thrive over local firms because of the competitive advantage they have. However, one aspect that Hymer appears to overlook is that conditions in each country are very different given the different institutional approaches taken. The dispensation of institutions exhibited in the KSA is not the same as that of Latin America or the European region. Linking his argument to NIE, Hymer's failure in his assumption in this theoretical deduction is that it does not factor in the role of institutions and how different they are based on their regions (Mudambi and Navarra, 2003). In a study by Kohler (2010), Hymer's

notion finds little support in countries that have weak institutions. In a scenario when investors face competition from the government due to corruption, Kohler indicates that success would be inevitable. As such, it only becomes clear that Hymer ignored the role played by institutions when it comes to foreign investment.

Two assumptions are made with the transaction cost theory; first, bounded rationality and second, opportunistic behaviour. Bounded rationality limits the behavior of a party to the contract, but still expects the party to act rationally despite the limitations. Opportunistic behaviour means the parties only follow the terms of the contract exactly if they are being monitored, otherwise they seek to change the circumstances for their own benefit.

3.5.2 The Eclectic Paradigm

Within the eclectic paradigm, the triadic constructs of ownership, location and internalisation (OLI) form the bases for MNEs to enter into different operations of foreign investments (Dunning, 2002). According to Dunning (2002), the OLI provides an analytical framework that could accommodate a number of economic and business theories of the determinants of FDI, inasmuch as the interrelationships of these three interdependent sets of variables (OLI) determines the extent, the geography and the industrial composition undertaken by the MNEs (Cantwell et al, 2010).

Before analysing the theoretical construct of this paradigm by Dunning in greater detail, it remains significant to analyse its evolution over the years. The latest version of the eclectic paradigm which has created room for incorporating the significance of institutions in FDI as stated by North (1990, 2005) and Guisinger (2001) does not coincide with the earlier version as acknowledged by Dunning (1988). By making a contribution to the internationalisation theory, Dunning provides an empirical overview to the distinct aspects that make firms succeed in foreign markets thus expanding FDI. Dunning's main concentration in the early version of this paradigm was on the initial determinants and the expansion of the firm after it has been established. However, his contribution has been the subject of immense criticism over the years due to it ignoring the place of institutions in FDI development. The recent study of Dunning and Lundan (2008) show how the two correlate institutions and the OLI paradigm of MNEs. Applying the work of Douglas North (1991), Dunning and Lundan (2008) indicate that

institutions have a significant effect in determining the functionality of MNEs when they enter other countries.

As critics point out, Dunning's concentration on the three advantages does treat firms as superior entities that can thrive well in foreign markets without considering the potential place of institutions. By collaborating with scholars such as Robson in Dunning and Robson (1987) and his own review in 2006, he acknowledged the deficit. However, it was not until 2006 that Dunning opened up by incorporating the significance and effects of institutions on FDI with his eclectic paradigm.

Under this paradigm, these three composites are interdependent but also interact along other business, economic and political dynamics (Dunning, 2000). Dunning (2000) posits that the content and expectations of the eclectic paradigm depend on a number of different economic and business related theories that complement each other, especially in terms of business dynamism. Taken together, the paradigm influences the direction of MNEs for foreign production in the same notion as other theories encompassing FDI (Dunning, 2000).

Ownership – the “O” in OLI is for ownership and the specific asset of a firm which allows it to generate larger profits based on their brand name, technology, benefits of economies of scale because their ownership brings a premium price or lower costs in production (Dunning, 2000). These are intangible and are transferable within the MNE (Dunning, 2000). The extent of competitive advantages specific to the ownership of the enterprise is directly related to the propensity by the same firm to engage in or increase its foreign exposure (Dunning, 2000). Therefore, relative to other firms with weaker competitive advantages, the stronger ones would have the greater capabilities and they are more likely to engage in FDI (Dunning, 2000).

Location – the “L” in OLI represents the location beneficial to generating greater profits because the advantages are found in this location as opposed to others (Dunning, 2000). The advantages range from natural resource availability, capital or labour inputs are far less expensive, and the per-unit cost of production and distribution are significantly lower. Often the location advantages match its competitive advantages (Dunning, 2000). This paradigm asserts that the more natural or immobile the ‘situational attraction’ is the more imperative it

becomes for MNEs to engage in FDI and establish operations in a foreign location in order for them to utilise or gain from the natural resource endowments (Dunning, 2000).

The country-specific advantages can be separated into three classes: economic advantages consisting of the qualities and quantities of the factors of production, telecommunications and transport costs, scope and size of the market; political advantages that include the common and specific government policies that influence inward FDI flows, international production and intra-firm trade; and, socio-cultural advantages that include the psychic distance between the host country, attitude towards the foreigners, language and also cultural diversities (Dunning, 2000).

Internalisation – the “I” of OLI is vital in the discussion of FDI and international joint ventures as *internalisation* aspects relate to the mode of entry, whereas the “O” and the “L” decides whether to engage abroad or not (Dunning, 2000). Given the competitive advantages of the ownership (O) and the attractiveness of the location (L), the operational modalities a firm may choose to undertake will practically depend on the quality of its integration with the foreign market (Dunning, 2000). This paradigm maintains that, the greater the net benefits of internalising the intermediate product markets on the cross-border, the higher the chances that a firm will opt to engage in foreign production (localisation) rather than license the right to do so with another firm (Dunning, 2000).

In sum, Dunning (2000) asserts that the precise OLI (ownership, location, internalisation) configuration and the firm’s response to the parameters within the configuration is strongly contextual. Hence, the integrative efforts to bring about a decision to engage shall also reflect: (a) the economic and political features in the region where the investing firm is seeking to engage; (b) the added value of the nature of the activity of the firm to the foreign market; (c) the characteristics of the investing firm that include their objectives, strategies and motives in pursuing these objectives; and, (d) the reasons to engage or rationalisation for the FDI (Dunning, 2000).

From the OLI paradigm, Dunning (2000) further assumes that the extent of foreign activity by the MNEs can be predicted or determined by the interactions of these three interdependent variables that also construct the components for three sub-paradigms or contextual variables:

competitive advantage as linked to ownership; *locational attraction* as linked to location; and, *internalisation design or strategies* as linked to internalisation. All of these three aspects interact to help explain the location decision of the MNE, which is a complex process as it incorporates decisions regarding the mode of entry, making these three sub-components (location decision, mode of entry and industry of entry) also interrelated (McCann and Mudambi 2004).

In the spirit of change and dynamism, Dunning and Lundan (2008) updated the OLI paradigm to accommodate or consider the institutional influences (formal and informal) inside the MNE as well as those between it and the external environment in which the firm operates (Table 3.3). The concept of institutional ownership (Oi) was introduced by Dunning and Lundan (2008) under the premise that the MNE's ability to grow, "requires effective management of both the market and nonmarket domains, and necessitates the simultaneous deployment of asset-based advantages, advantages of common governance and institutional advantages". Thus, insufficient Oi may be relative to the inability of some MNEs to expand beyond their regional market. To achieve a unified framework that accommodates both firm-specific and country-specific considerations, emphasis was placed on the importance of institutions based on three main reasons, namely:

1. Economic growth can be understood as a process.
2. Increasing social and technological complexity and interconnectedness (Cantwell et al., 2010).
3. The emergence of open business market.

Table 3-3: Examples of Formal and Informal Institutions Affecting the OLI Configuration of Firms.

	O Organisational/governance	L Social capital	I Relational
Institutions			
Formal	Laws, regulations, conventions Discipline of economic markets	Laws, regulations, conventions Discipline of political markets	Contracts (both inter- and intra-firm)
Informal	Codes, norms Country/corporate culture Moral ecology of individuals	Religion, social mores, traditions Civil society	Covenants, codes, trust-based relations (both inter- and intra-firm) Institution-building through networks/ clusters of firms
Enforcement mechanisms			
Formal	Sanctions, penalties Taxes, incentives Stakeholder action (consumers, investors, labour unions)	Sanctions, penalties Quality of public organizations Education (in shaping and implementing institutions)	Penalties for breaking contracts Strikes, lock-outs, high labour turnover Education, training
Informal	Moral suasion Loss or gain of status/recognition Retaliation Build-up/decline of trust Blackballing	Guilt, shame Demonstrations, active participation in policy-making organisations (bottom-up influence) Moral suasion (top-down influence on institutions, organisations and individuals)	Guilt, shame No repeat transactions External economies/diseconomies arising from networks/alliances, e.g. learning benefits Blackballing

Source: Dunning and Lundan (2008).

Various theoretical considerations were cited by Cantwell et al. (2010) towards the drawing of the key characteristics of MNE engagement with institutional environments: (in their study, the OLI paradigm was used as the base contextual framework). Table 3.4 differentiates between institutions and three forms of engagement involving MNEs, and identifies outstanding studies from the international business literature to illustrate their differences.

a) Institutional avoidance – refers to the manner MNEs perceive a given institutional environment as exogenous (external) firms in which they react to the institutional quality and make choices between different environments. Often, weak institutional environments characterised by a lack of political instability and accountability, poor regulation and deficient regulation are avoided. However, there are exceptions which may include natural-resource seeking investment and some forms of infrastructure investment where the alternative investment locations limited (Cantwell et al., 2010);

b) Institutional adaptation – refers to an MNE's effort to adjust its own structure and policies to better fit the environment, which may include, as a means of achieving particular interests and objectives, the use of political influences and/or intentionally emulate the behaviour and commercial artefacts that are most desirable in the host country context. To a limited extent, firms may attempt to influence local institutions and embed themselves in the local context. As a result of adaptation and local learning, firms gain strategic options (Cantwell et al., 2010);

c) Institutional co-evolution – more than being type-related, this form of MNE engagement relates more closely to the extent an MNE sees itself as a co-creator of institutional change in a local setting (host country). It is principally rooted in the balance between adaptation and coevolution. It includes scenarios of introducing new organisational routines and best practices developed either locally or infused to the local setting from elsewhere within the MNE network (Cantwell et al., 2010).

Table 3-4: Differentiates Between Institutions and Three Forms of Engagement involving MNEs

	<i>Examples from the empirical literature</i>	<i>Key characteristics</i>
Institutional avoidance	<ul style="list-style-type: none"> ● Strong/weak institutions and FDI attraction: institutions in transition economies (Dunning, 2005; Meyer & Peng, 2005); in developing countries (Globerman & Shapiro, 2002; Jensen, 2006); the effects of corruption (Cuervo-Cazurra, 2006) ● Choice of entry mode and sequence, particularly in emerging economies (Delios & Henisz, 2003; Meyer, 2001; Meyer & Nguyen, 2005; Uhlenbruck, Rodriguez, Doh, & Eden, 2006) 	<ul style="list-style-type: none"> ● Institutional environment is exogenous to firms ● Firms choose between different institutional environments ● Firms react to poor institutional quality by adjusting their entry mode
Institutional adaptation	<ul style="list-style-type: none"> ● Use of political influence and bribery, particularly in connection with resource-seeking and infrastructure investments (Doh, Teege, & Mudambi, 2004; Ramamurti & Doh, 2004); the obsolescing bargain (Grosse, 2005) ● Legitimacy through isomorphism (Kostova & Roth, 2002); seeking to become a market insider (Mason, 1992) ● Imitation, learning and post-entry changes related to entry mode (Chang & Rosenzweig, 2001; Davis, Desai, & Francis, 2000; Guillén, 2003) 	<ul style="list-style-type: none"> ● Institutional environment is exogenous, but firms adapt their own behavior to achieve a better fit ● Firms may try to influence local institutions, but only to a limited extent ● Firms seek legitimacy by adapting to local isomorphic pressures ● As a result of local learning and adaptation, firms gain strategic options ● Embeddedness in an institutional context
Institutional co-evolution	<ul style="list-style-type: none"> ● Transfer of organizational forms, such as the M-form (Chandler, 1990; Kogut & Parkinson, 1998) ● Transfer of organizational routines and best practices that have an institutional basis: transfer of employment practices from US to Europe in the 1950s and 1960s (Kipping & Bjarnar, 1998; Zeitlin & Herrigel, 2000); Japanese “transplants” in the US (Westney, 2001) and in the UK in the 1980s (Dunning, 1986; Oliver & Wilkinson, 1988); workforce diversity policies in UK affiliates of US MNEs (Ferner, Almond, & Colling, 2005); employment discrimination in MNE affiliates (Wu, Lawler, & Xiang, 2008) ● Adoption of best practices directly connected to institutions in another country: adoption of the arm’s length accounting standard internationally (Eden, Dacin, & Wan, 2001); adoption of aspects of the Sarbanes-Oxley Act by German MNEs (Hollister, 2005); adoption of board diversity policies by Swedish and Norwegian MNEs (Oxelheim & Randøy, 2003); contribution of US MNEs to the institutional transformation in Japan (Ozawa, 2005); similarity of corporate governance laws and divergence of governance practices (Khanna, Kogan, & Palepu, 2006) ● Firm sponsorship of common technology or regulatory standards: Sun Microsystems’ sponsorship of Java (Garud, Jain, & Kumaraswamy, 2002); the role of Pfizer in the TRIPs agreement (Ramamurti, 2005); promotion of TRIPs-plus provisions in US BITs by MNEs (Heath & Kamperman Sanders, 2005); sponsorship of ISO 9000 standard for quality management (Culer, Guillén, & Macpherson, 2002) and ISO 14001 for environmental management (Christmann & Taylor, 2001) ● Firm self-regulation, particularly in areas related to CSR: programs to bring affordable medications to developing countries (Vachani & Smith, 2004); to confront climate change (Brewer, 2005); to improve labor standards (van Tulder & Kolk, 2001) 	<ul style="list-style-type: none"> ● Institutional environment is partly endogenous ● Firms adjust to different institutional environments by a process of co-evolution ● Firms introduce new institutions that are adapted to the local context ● Unintentional institutional spillovers occur as a result of local imitation ● Active agency and institutional entrepreneurship

Source: (Cantwell et al., 2010).

3.5.3 Institutions

3.5.3.1 *Institutions and FDI Inflows: Theoretical Overview*

For a better understanding of institutions in determining FDI inflows, it is important to connect frameworks addressing effects of institutions on economic activities (especially in investment incentives) with the frameworks addressing the determinants of FDI (Ali et al., 2010). The best way to do this is by merging Dunning's eclectic paradigm (OLI) with North's views on effects of institutions on investment and economic activities. Dunning's paradigm has been developed to explain the behaviour of MNEs i.e. to explain why firms own foreign production facilities. However, it has been used widely to analyse the determinants of FDI inflows (Gastanaga, Nugent et al, 1998). North's views on institutions applied to FDI along with his outlook on the effects of institutions on investment and economic activities. Dunning and Lundan (2008) incorporate institutional influences explicitly (North's views on the effects of institutions) in the OLI paradigm.

According to North (2005), institutions influence economic activities because they influence transformation and transaction costs. Transaction costs related to economic exchange and comprise of: (1) cost incurred to calculate the value of the exchange (2) cost incurred to attain copy rights and enforcement of agreements. These expenses are incurred because of the uncertainty involved in the opposing party's exchange. Without institutions, there might be doubts over the behaviours of parties engaging in economic exchanges. Parties may trick, avoid or break contracts, if doing so proves to be in his/her favour. In view of this lack of doubt, a risk premium will be incorporated in the transaction cost. Institutions, formal and informal, emerge to supply exchange parties with standards and techniques that help diminish any doubts that may arise in economic exchange (Wernick, Haar and Singh, 2009). Informal institutions such as norms of behaviour and traditions can help to address these questionable matters, yet they can do that in particular straightforward trade where traders have an understanding about one another and they discover it in their diversions to satisfy the understanding (Menard and Shirley, 2005).

Institutions can likewise influence economic activities by influencing production cost and transformation. North (1990) contends that production procedure is a capacity of the level of

engineering utilised, as well as of the nature of institutions and thus they assume an essential part in limiting production cost. Institutions assume this part in view of their consequences for the environment inside which firms collaborate. Production procedures entail: converting inputs of land, labour, and capital, to yield merchandise and services. The proficiency of the production obliges safe procurement of the aforementioned inputs. It can be assumed by firms as troublesome in terms of proficiency, assuming that they are not ready to discover the amount and standard of their inputs and consequently their yields. Accordingly, variability in the quality or amount of inputs requires firms to designate greater time and resources for organising, monitoring, collaborating, following up and measuring. Institutions can influence the variability in the quality or amount of inputs, in light of the fact that they figure out the enforceability, estimation, and doubt issues prevalent in these markets (Abdi and Aulakh, 2012). Consequently, institutions can influence cost of production by influencing the time and assets designated to managing issues of variability of inputs. They can additionally influence production costs by influencing the degree of production intrusions. Preparation methodology could be unfavourably influenced when long queues or remunerations are obliged, in order to get various licenses or various types of permits, all controlled by the productivity of institutions.

The past examination makes it clear that institutions have potential consequences for the FDI inflows and those countries with great institutions will attract more FDI (Bénassy-Quéré, Coupet and Mayer, 2007). Institutions assume this part in light of the fact that they influence transformation and transaction cost, which influences the gain, received from building production facilities in the host nation. Then again, the effect of institutions on the FDI may go past these impacts (Henisz and Williamson, 1999). Some explanations make MNEs, especially delicate to the institutional quality of the host nation. For instance, Henisz (2000a) and Williamson (1999) state that in nations where property rights are not secured, MNEs confront political peril and/or confiscation hazard. A host country's government, firstly, might perceive it as beneficial to carry on in such a manner and allocate a portion of the gains of the MNEs, or even nationalise them (the immediate peril). Secondly, since they have better access to political procedures, host nation accomplices or contenders may induce the administration to favour them at the liability of the MNEs (the backhanded peril). Also, now the worldwide economy has changed the way that the MNEs observe the local points of interest they look for, making them progressively favour areas which offer the best institutional and economic

organisations (Dunning, 1998). The goal of MNEs has changed from traditional locational advantages such as natural resources and so on, to creative locational advantages which incorporate knowledge based economy, and high quality of institutions (Bevan, Estrin and Meyer, 2004 and Narula and Dunning, 2000). The critical nature of institutions for MNEs could be credited to the way that they speak to the significant stable components in a globalised business (Mudambi and Navarra, 2002) and that MNEs require them to proficiently use their centre skills, and enlarge and enhance their firm specific advantages (Dunning, 1998; Bevan, Estrin and Meyer, 2004).

3.5.3.2 Institutions and FDI Inflows: Empirical Review

In this section, the discussion starts with later discoveries of empirical studies that utilise cross country regression to explore the role of institutions in determining the FDI inflows. Table 3.5 gives an outline of the diverse studies as far as country samples, institutional variables utilised and time horizons are concerned. FDI also outlines the primary sources in that area. First of all, most of the studies demonstrate that institutions have important impacts on the FDI. This might be comprehensively translated as a general accord that institutions, however characterised or measured, matter for the FDI. Only a few studies do not consider institutions to be essentially identified with the FDI. An alternate viewpoint comes from Noorbakhash et al. (2001), that majority democratic and political uncertainties are irrelevantly identified with the FDI. In addition, some academics such as Harms and Ursprung (2002) report that the impact of institutions on the FDI is not strong.

These effects may generate mistrust regarding the pertinence of institutions to the FDI, prescribing that institutions are not a strong determinant of the FDI. Nonetheless, they may simply be a consequence of examining or estimation issues. Researches that have a tendency to nullify any critical effect of institutions on the FDI are, by and large, dependent upon rather limited nation samples. For instance, Noorbakhsh et al. (2001) utilised 36 developing nations, while Jun and Singh (1996) utilised 31 nations. Utilising limited and restricted nation samples might undermine the impact of the important determinant when it shows a constrained variety inside a specific case. As institutional markers normally show little variation in time, surmising on their effect might as well, be dependent upon a variable sample. This implies that variable

samples, which speak to the entire worldwide business sector, not a subset of it, ought to be utilised if one requires to legitimately survey the part of a particular determinant.

Estimation issues, once more, come about because of utilizing unsuitable indicators to determine the effect of institutions. One part of the estimation issue is identified with utilising indicators that catches just incompletely the quality of institutions. The Table 3.5 shows that assorted measures of institutional quality have been utilised within the empirical literature, enveloping measures of democratic system, political unsteadiness, corruption, political rights, property rights, social pressure, and so forth.

An alternate excuse is that there are numerous samples of rulers who methodically seize rights while figuring out how to stay in force for quite a while, and who effectively quell any upsets or transformations against them. The lack of awareness of such cases by measures of political insecurity might make poor detail and requirement of political rights or property rights decidedly connected with political solidness.

The same could be connected to measures of democracy and different measures of political and civil rights. While democratic administrations by and large have a tendency to upgrade economic and different rights, there is nothing to certify that this might be the situation at all times. Besides, there is nothing holding back dictatorial administrations from regarding corruption, political rights, property rights, social pressure, and so forth. Indeed, as mentioned by Clague et al. (1996), there are examples of groups of terrible democracies and great autocracies.

The other estimation issue is identified with utilising only a single index, such as the Expropriation Risk or Rule of Law to catch the status of corruption, political rights, and so forth. To the degree that investors settle on their choice as for, the by and large state of institutions, instead of a solitary part of them, utilising an index that catches the stand out part of institutions' quality will think little of their part in figuring out the FDI. To better understand the part of institutions in determining FDI inflows, an exhaustive index for institutions should be utilised.

Table 3-5: Summary of Recent Studies of the Effect of Institutions on the FDI

Authors	Sample	Institutions aspects examined and sources	Findings
(Addison and Heshmati 2004)	110 countries	Democracy; Freedom House.	Democracy has a positive effect on FDI.
(Ali et al., 2010)	69 developing countries, (1981-2005)	Law and Order index; ICRG PRS. Property rights security; Investment Profile index.	Institutions (especially propriety rights) are a robust predictor of FDI. Institutions at the sectorial level (primary sector) do not have a significant impact on FDI but it matters for services and manufacturing.
(Asiedu 2002)	71 developing countries, (1988-97)	Expropriation risk; ICRG PRS. Political risk; Barro & Lee 1993.	Expropriation risk and Political risk have no significant effects on FDI.
(Asiedu 2005)	22 African countries, (1984-2000)	Political risk; Cross-National Time Series Data Archive. Corruption, rule of law; ICRG PRS.	Political stability, less corruption and reliable legal system can attract more FDI
(Bénassy-Quere et al., 2007)	52 countries, (1985-2000)	Free competition, personal and property protection, Individual choice and voluntary transaction; The Fraser Institute. The Institutional Profiles (IP); French Ministry of Finance.	Good institutions almost always increase the FDI.
(Buchanan et al., 2012)	164 developed and developing countries, (1996-2006)	Government Effectiveness, Rule of law, Political Stability and Absence of Violence, Voice and Accountability, Control of Corruption, and Regulatory Quality; Worldwide Governance Indicators (WGI)	Institutional quality matters to FDI.
(Busse and Hefeker, 2007)	83 developing countries, (1984-2003)	Corruption, Quality bureaucracy, rule of law, Military in politics Government stability, internal and external conflict, ethnic and religious tension, Investment profile, Socio-economic conditions, and democracy; ICRG	Basic democratic rights and ensuring law and order, government stability, and absence of internal conflict and ethnic tensions are significant determinants of FDI.
(Busse, 2004)	69 developing and emerging countries, (1972-2001)	Democracy; Freedom House	There is a positive link between FDI and democracy, but this does not hold for 1970"s and 1980"s.
(Campos and Kinoshita, 2003)	25 transition economies, (1990-1998)	Quality of bureaucracy; Campos 2000. Rule of law; ICRG.	Both institutional aspects are significant and positive.
(Daniele and Marani, 2006)	10 countries (MENA), (1995-2004)	Government Effectiveness, Rule of law, Political Stability and Absence of Violence, Voice and Accountability, Control of Corruption, and Regulatory Quality; Worldwide Governance Indicators (WGI)	The institutional quality is a major determinant of FDI in MENA region.

(Drabek and Payne, 2002)	49 countries, (1991-1995)	ICRG Political Risk Index; PRS.	A nation that takes steps to increase the degree of transparency in its institutions and policies could expect important increase in FDI inflows.
(Gastanaga, Nugent et al., 1998)	22 countries, (1970-1995)	BERI. Corruption; Mauro 1995. Bureaucratic delay, Contract enforcement, Nationalization risk; Business Environmental Risk Intelligence.	Different institutional characteristics are shown to have important effects on FDI.
(Globerman and Shapiro, 2002)	144 countries (1995-1997)	Political instability, Governance Index, Graft and corruption, Regulatory quality, Government effectiveness, Voice and accountability, and Rule of law; Kaufmann et al 1999	The general Governance Index is more significant than its subcomponent and then Infrastructure index and Human development index.
(Harms and Ursprung, 2002)	62 developing and emerging countries, (1989-97)	Political risk: contract repudiation, exchange control, and expropriation; ICRG. Business Environment: bureaucratic quality and law and order, corruption; ICRG PRS. Democracy; Freedom House.	FDI appear to be attracted by countries in which political and civil freedom is respected. Other institutional aspects do not have robust influences on FDI.
(Miller Holmes, 2011)	50 countries	Economic; WDI and PRS. Regulatory; IEF. Political and ICRG; POLCON and Freedom House.	Institutions affect the country's level of inward FDI differently.
(Jensen, 2003)	114 countries, (1970-1997)	Bureaucratic quality, Expropriation, Government Reputation, Rule of law, Corruption; Easterly Data Set Easterly 1999. Democracy; Polity III data Jagger and Gurr 1996.	Democracy has a robust positive impact on FDI. Other institutional aspects have no important effects on FDI.
(Jun and Singh 1996)	31 countries, (1970-1993)	Political rights; Freedom House. Operational risk and Political risk; Business Environmental Risk Intelligence (BERI).	Institutional aspects have positive but not robust impacts on FDI inflows.
(Kolstad and Tondel, 2002)	61 developing countries, (1989-2000)	Corruption, Quality bureaucracy, rule of law, Military in politics Government stability, internal and external conflict, ethnic and religious tension, Investment profile, Socio-economic conditions, and democracy; ICRG.	Government stability and bureaucratic quality do not matter for FDI. Democracy is a robust determinant of FDI. Investors are worried about internal conflict and ethnic tension. They pay less attention to military in politics, law and order, and external conflict.
(Li and Resnick, 2003)	53 developing countries, (1982-1995)	Property rights protection; Knack and Keefer 1995. Democracy; Polity IV.	Democratic institutions influence FDI inflows both negatively by imposing constraints on host country and FDI, and positively by improving property rights.
(Méon and Sekkat, 2005)	107 countries.	ICRG Political Risk Index; PRS, Corruption; Government effectiveness index, Rule of law and Transparency International; Kaufmann et al 1999.	Political risk determines FDI not only the institutions.
(Morrissey et al., 2012)	46 developing countries, (1996-2009)	Government Effectiveness, Rule of law, Political Stability and Absence of Violence, Voice and Accountability, Control of Corruption, and	Good governance attracted more FDI, in particular stability and low corruption.

		Regulatory Quality; Worldwide Governance Indicators (WGI) (Kaufmann et al 2010).	
(Noorbakhsh, Paloni et al., 2001)	36 developing countries, (1980-1994)	Political instability; Euromoney, Democracy; Freedom House.	Political and democracy risk have no important impact on FDI.
(Wernick, Haar et al., 2009)	64 emerging countries, (1996-2006)	Government Effectiveness, Rule of law, Political Stability and Absence of Violence, Voice and Accountability, Control of Corruption, and Regulatory Quality; Worldwide Governance Indicators (WGI)	Institutional quality is positively linked with FDI
(Yin et al., 2012)	77 developed and developing countries, (1981-2005)	Bureaucratic quality, government repudiation of contracts, corruption, risk of expropriation, and rule of law; International Country Risk Guide (ICRG).	Institutional quality is important in attracting FDI inflows.

Source: Author

3.5.4 Varieties of Capitalism (VoC)

As analysed by Bancarzewski (2016) in the coverage of Japanese foreign investment in Poland, the author acknowledges that VoC has been used for a long time in the analysis of capitalist systems. In appreciating the work of Hall and Soskice (2001), Bancarzewski (2016) indicates that VoC is used to categorically distinguish two types of capitalist economies, that is, the Liberal Market Economy (LME) and the Coordinated Market Economy (CME). Before moving into the conceptualisation of the two categories, it is significant to point out that VoC is a framework that in the real world scenario is used to compare and contrast the dispositions of developed national economies. This conceptual framework is more concerned with the relationship of firms with each other and significant actors. The five domains that Hall and Soskice (2001) use to determine organisational correlations include; corporate governance, association with employees, inter-firm relations, vocational training, and industrial relations. These five domains go a long way in determining the structural approach adopted by LME and CME economies.

As indicated by Bancarzewski (2016), LMEs are identified by existence of a market mechanism that dictates inter-firm relationships and the association of market players with their financiers. On the other hand, CME exhibits no market system and thus depends more on the non-market relationships and formal institutions which are supposed to harmonise the present transactions. Such differences play a huge role when it comes to foreign investment by MNEs

as analysed by Rees (2007). LMEs and CMEs have several differences starting from the basic way they operate, and factors that act as a linkage to the postulates of NIE as covered by North (1990, 1991, 2005). LMEs have a competitive market arrangement while CMEs exhibit no relations at all. The inter-firm relations as covered in LME are of a competitive nature while the strategy adopted in CME is more collaborative. The legal system which plays a central role in economic development is complete and prefers complete contracting under LMEs, while CMEs uphold the direct opposite. The function of institutions as conceptualised by Hall and Sockice (2001) are to maintain competitiveness and uninterrupted movement of goods while in CMEs, institutions are for surveying and defectors.

The work of Kuznetsov and Jacob (2015) offered a perspective on the subject of institutional impacts on company adaptation using the “variety of capitalism” VoC theory. They investigated the operations of German subsidiaries operating in the UK to examine forces and conditions that promote or impede adaptation processes (Kuznetsov and Jacob, 2015). They devised a self-designed instrument which they termed as “index of institutional impact” that focuses on the holistic rather than the business aspects of the organisation (Kuznetsov and Jacob, 2015). This index makes it possible to convert the qualitative characteristics of subsidiary and parent companies into a format that can be used in quantitative analysis.

The study reveals that behaviour of German subsidiaries is relatively aligned with the institutional practices in the host country (UK) and are mediated by factors internal to the firm (i.e. age, size and subsidiary function) (Kuznetsov and Jacob, 2015, p166). As the “index of institutional impact” is able to quantitatively translate data that would have been traditionally obtained through case studies or anecdotal evidence, the instrument may be used under a similar methodology and purpose in another setting or location.

VoC, just like NIE, has a deep role in FDI inflows of a particular country. Based on the firms’ relationships with each other and chief stakeholders, LME countries such as the US and UK are most likely to have their multinationals concentrate in countries that exhibit similar dispensations. While both LME and CME have significant micro-economic advantages, Rees (2007) concludes that LMEs are directly linked to increased FDI performance because of the institutional advantage that initiates increased competition among firms. Institutional economics as explored by North (2005) has a significant role in laying out market competition

where equal rules are applicable to all market players. UK MNEs are more affiliated to LME and for the case of the KSA, it is significant to determine which regime is adopted by the based on institutional factors in order to create the right incentives for increased FDI inflows.

3.5.5 Culture and Hofstede

North's (2005) focus on the informal rules and constraints leads to the topic of culture of institutions. Culture has been defined as an element institutional environment that may influence the response of subsidiary managers when it comes to institutional duality (Hofstede, 1991). This section provides a detailed explanation of culture and elucidates the relationship between culture and formal institutions using Hofstede's dimensions of national cultural differences. Hofstede (1991) defines culture as the most shared pattern of feeling, thinking, and behaving that helps set a particular group apart from the rest (Hofstede, 1991). Schein (2002) offers a similar description of culture, where he suggests that it is a shared learning of emotional, cognitive, and behavioural patterns that a given group uses in solving their problems and can be taught to other members.

According to Adler (1997), culture is shared, and then passed over to the younger generations, with a mandate of shaping the behaviour and perception of the people. Martin (2002) and Schein (2004) suggest this point underlies many definitions of culture. Nevertheless, most researchers understand that not every member of a given group shares all the cultural characteristics of that group (Hofstede, 1983; Schein, 2004). They understand that ambiguity and irregularity is encrypted in the form of many ideas and values of a culture (Barakat, 1993; Martin, 2002; Schein 2004). For this reason, there is a challenge that all aspects of culture are actually shared (Barakat, 1993; Martin 2002; Schein, 2004).

Despite these conflicts, culture always makes every effort to integrate the different aspects of life into a consistent whole thing which is an added advantage of culture (Schein, 2002; Trice and Beyer, 1993). Culture is said to be stable but at the same time, it is dynamic and changes as new members are introduced in the society (Barakat 1993; Trice and Beyer, 1993). It is also pervasive with a bearing on every aspect of group functioning (Schein 2002). Looking at its characteristics, culture serves a number of purposes. First, it helps to reduce the uncertainty by providing a perspective that is predictable for viewing the world and the idea of dealing with

unexpected problems (Schein, 2002; Trice and Beyer, 1993). It is known to create social order by simply laying out all the expectations of how people are supposed to behave (Schein, 2002). It is also served with the mandate of punishing the violators (Trice and Beyer, 1993). This way, culture controls and guides the behaviours of all its members (Barakat, 1993; Schein, 2002; Trice and Beyer, 1993).

It is also a hub for beliefs and practices where people engage in activities such as socialising with new members by accepting and conforming to the norms of the group (Trice and Beyer, 1993). It is a sign of collective identity as the members see themselves as part of a group, sharing ideas, understanding, and supporting each other (Trice and Beyer, 1993). Then, it may also lead to the intolerance of people who hold ideas different to that of the group (Trice and Beyer, 1993).

Hofstede (1991) shared a similarity of the opinion to describe the different layers of culture. The most superficial layer consists of symbols, such as words, gestures, or pictures that can be understood by the people within that culture. The second layer consists of the heroes or the figures, whether real, dead, or alive that the members look up to (Hofstede, 1991). The third layer covers the rituals or simply the visible practices that are considered generally essential. The fourth and the deepest layer is the idea of values, which are important aspects to consider, as in certain states people indirectly learn more in the initial stages of growing up (Hofstede, 1991).

According to Schein (2004), culture is divided into three major levels that differ in terms of how well they are visible to an observer. In most cases, artefacts are the most common things people can see, hear, and feel once they enter a group or society (Schein, 2004). They are the most visible level of culture elements that are easy to identify with but difficult to interpret. Espoused beliefs are regarded as the shared beliefs with guided members' behaviour and have been reinforced since they have proved to be successful. Nevertheless, these beliefs are referred to as espoused as they signify what people should do rather than what they actually do (Schein, 2004).

The assumptions are the values that are shared between members and guide their actual behaviour. The power of culture comes from the fact that most members go with the

assumptions to know what to listen to and pay attention to (Martin, 2002). Then, in order to maintain stability in society, members begin to notice things that are consistent with these assumptions and ignore what does not fit (Schein, 2004). Both Martin (2002) and Schein (2004) argue that each level offers a certain thread that can be followed with deeper levels of interpretation. Viewers cannot correctly identify the importance of a culture by just looking at its artefacts alone since in most cases, they will most likely project their own values onto them. To get a full understanding of what can be done, they should dig deeper into the culture to uncover the beliefs behind the artefacts (Schein, 2004). But, beliefs may only be espoused, meaning that they cannot offer a full understanding of a given culture. In order to better understand culture, members must examine the basic assumptions (Martin, 2002; Schein, 2004).

The differences between national cultures may give birth to a significant challenge for MNEs since some management practices are culturally bound (Gomez, 2004; Hofstede, 1983). The reason behind this is that the theories used in these practices are a reflection of the cultural environment where they are developed (Hofstede, 1980). Take for example, the leadership theories that are developed in the US. They are seen to rank low on power distance, having the most common characteristic of emphasising participation (Hofstede, 1980). However, the leadership theories in France emphasise who holds the power (Hofstede 1980). Also, culture influences the values and beliefs of the managers which in turn influence their behaviours (Adler 1997). The behaviour of managers helps to shape the behaviour of their employees, structures, organizations, and processes (Adler 1997; Bartlett and Ghoshal, 1989).

According to McGregor's argument about "Theory X" and "Theory Y" managerial styles, especially on culture that affects organisational behaviour of members through a self-fulfilling prophecy (Adler, 1997). A manager's beliefs, values, and attitudes help in shaping the behaviour of the members, which is a major guide in maintaining a certain behaviour from employees. The behaviour of employees then strengthens the manager's beliefs, values, and attitudes (Adler, 1997). An example is when a manager who believes that his/her employees cannot be trusted may establish a strong control system to enable the employees to respond by finding the loopholes in it. As a result, it helps to reinforce the manager's belief that employees cannot be trusted. Adler (1997) further argues that the normal cultures not only penetrate into the domestic companies but even the employees in MNEs may retain their culture in their

working attitudes and behaviours. This similar aspect concerning Central and Eastern Europe has also been covered by Tintin (2013), who emphasises the role of institutions in stabilising informal aspects such as culture.

This means that for a company's management practices to be effective, there should be a well-suited culture to be implemented (Gomez, 2004). This can be termed as the practice theory which is effective for those organisations operating in different cultural contexts which have adapted their ideas of management to the local culture (Hofstede, 1983). Gomez (2004) has warned against using such cultural stereotypes to make the assumption that various practices may not work. As an alternative, she proposes that there are several ways for a given subsidiary to facilitate the implementation of imported organisational practices even when there is no incompatible culture (Gomez, 2004). She found that the Mexican subsidiary was in a position to become a learning organisation effectively even though all the practices associated with such a company, such as teamwork and autonomy, were usually unusual for the Mexican culture. This is a perfect example of a subsidiary which is able to balance the needs for adaptation and integration (Gomez, 2004).

The most popular study that acted as a link to the factor of culture to organisations was Hofstede's (1980, 1991), which was a study of the work attitudes of employee in a MNE. It has been used a large number of researchers who have found it to be one of the few empirical studies that successfully ties cultural characteristics to the organisational differences (Wasti, 1998).

With regards to NIE, Hofstede's work remains of immense relevance because of its ability to scrutinise vividly the issue of informal institutions. While North (1991, 2005) is able to acknowledge NIE as a literal body that covers both formal and informal institutions, it is hard to argue with the fact that much of the coverage has been dedicated towards the former. Less analysis on the real impacts of informal institutions in affecting FDI has not been extensively covered creating an intellectual gap on the subject issue. It is this prevailing gap that Hofstede's analysis of the cultural aspect, which is the definition of informal institutions by North (2005), deals with.

However, in relation to the present study, NIE is used because of its ability to focus on more than one factor. The cultural aspect as described by Hofstede is covered under the informal institutions while the vast coverage of formal institutions under NIE highlights aspects relating to FDI that are not covered by Hofstede. In such a diverse study that seeks a clear justification from all institutions, the earlier work of North (1990, 1991 and 1999) asserts that NIE is the best theoretical framework to go by. In addition, other studies carried out by academics such as Singh and Jun, 1995, Bevan and Estrin, 2000 and Bevan et al. (2004), indicate that NIE is the option for a better understanding of the problems of the KSA.

3.5.6 Dimensions of National Cultural Differences by Hofstede (1991)

In this section, Hofstede's (1991) dimensions will be used to describe the Arabic culture. Basing the study on the survey data about values collected from IBM employees in 40 different countries, Hofstede (1991) identified four elements of culture including individualism versus collectivism, power distance, masculinity versus femininity, and uncertainty avoidance. An additional dimension was the short-term orientation versus long-term orientation. Each of the corresponding dimensions do set a criterion that he used to describe and compare the cultures of different countries (Hofstede, 1983; Hofstede, 1991).

In those countries with high power distances, the less powerful members including students, children, and subordinates are expected to be obedient and dependent on more powerful members such as the teachers, parents, and bosses (Hofstede, 1991). The main aim here is to refrain from opposing or condemning more powerful members and avoid experimentation (Hofstede, 1991). Countries with low power distances always treat the less powerful members as equal. They give them independence, and also allow them to research and contradict more powerful members (Hofstede, 1991).

Moreover, individualism and collectivism are also major factors required in society (Hofstede, 1991). They are concerned with the nature of relationships between members of a society. Individualism describes the societies in which people are more connected through loosing social networks. On the other hand, collectivism characterizes societies in which most people hold strong ties with members of their different groups (Hofstede, 1991). The main difference that exists between the two is whether the interests of individuals or a group take priority in

society. In individualist societies, peoples' identity is derived from their individual self, thus they are expected to look out for themselves and their immediate family. In collectivism, people derive their personal identity in the societies from their sense of belonging to a group. The group then provides them with the needed protection in return for automatic loyalty (Hofstede, 1991).

Analysis of the cultural issues as discussed by Hofstede (1991) shows that the KSA is a unique country and maybe it is because the complex position assumed by the state that optimal FDI inflows in recent years have not been achieved. With regards to the power structure, the KSA exhibits high power structure where the least powerful individuals must subject themselves to the authority of the powerful. The similar aspect is also exhibited in masculinity and feminism. Citing religious factors as analysed by Hergueux (2011), the role of females in Saudi society has been limited, while men are allowed to hold the power and decision making authority. Such are some of the cultural values that end up affecting how MNEs view their success rate in the KSA. The chemistry of how people interact remains significant in influencing the economic output of a given country. In a similar analysis carried out by Emmanuel (2012) on the predicament of two Swedish firms in the KSA, he acknowledges the cultural difference. The way of living in Sweden is not the same as living in the KSA. While the entities know the existence of such a factor, they go ahead to acknowledge that the organisational environment is used as a neutral group where a hybrid operational culture is created for optimal results.

3.6 Summary

In this chapter, research previously done on FDI and the role of institutions for purposes of contextualizing the study has been covered. By providing a clear definition of FDI a clear understanding of the type of businesses involved in this research has been established. After careful consideration of a variety of theoretical models, the OLI paradigm was found to be appropriate. The research discussed extensively the different determinants of FDI and the different advantages to host and home economies. The following chapter will be vocal in furthering the discussion to ensure clear understanding of the topic of study.

It is important to note that FDI is made for long term purposes to acquire long-term interest in the enterprises operating outside the limits of the investor's economy. The KSA has a large

population and gross domestic product (GDP), but is slow to open capital markets to foreigners. However, the literature reviewed illustrates that FDI inflows are dependent on factors such as institutions that influence the manner of economic activities and operations that can be carried out in the host country.

Foreign investors, such as the MNEs, are also more likely to look for those markets that are similar in structure to their home country. Culture of the host country is also known to create some form of order as it directs how people should behave and what to expect. It has a tendency to punish its violators. As such, foreign investors are aware of cultures that enable business environments to flourish and others that limit business activities. Apart from these variables that can also translate into barriers of foreign investment. The KSA has experienced a decreasing trend of its FDIs in the past five years. To attract more foreign investors, it has to consider all the factors that provide a positive business environment for MNEs. Foreign investors are also attracted to growing economies and the KSA can benefit by directing its resources towards building on its economic growth.

Chapter 4 : Development of the Conceptual Framework

4.1 Introduction

The significance of this section in the discussion is to provide a theoretical analysis of unique factors that are associated with FDI influence in the KSA locally. Literature covered in the previous sections of the study gives a comprehensive overview of how both formal and informal institutions affect the performance of FDI in any given country. This particular chapter begins by providing a theoretical background before analysing FDI determining factors that are linked to the ideal situation of the KSA, bringing into perspective the significant role played by both formal and informal institutions. This is followed by the hypotheses formulation before ending with a conclusive summary.

4.2 Background

4.2.1 Theoretical Background

The previous literature in this study has discussed the institutional factors that are being adapted and valued by British MNEs currently operating under FDI arrangements. A conceptual model has been developed to capture the information on FDI inflow into the KSA from Britain. The study's main intention is to determine the institutional factors that are valued and adapted by British MNEs currently operating in the Saudi market, as well as capturing those factors that impede their operations, and the region's institutional environment. The objective was to capture a clear picture of how these MNEs perceive, and correspondingly adjust to fit and act to co-establish changes in their given environments. Specifically, the impact of institutional environments was reviewed to ascertain how influential they are to foreign investors. As mentioned in the theoretical grounds section, the researcher feels it is necessary to identify the institutional adaptation, coevolution, and institutional avoidance considerations the British MNEs use in making a decision to partake in FDI in the KSA. In this context, the research question can be summarised in a detailed and simplified conceptual model as shown in Figure 4.1 in section 4.3.1. This is an extended model illustrating different components as outlined.

4.2.2 The Conceptual Framework

In line with the model described in Figure 4.1. in section 4.3.1., locational factors will determine where British MNEs can operate and how they will decide to control their entry choice in the Saudi market. Since both location and mode choices act as the main drivers of FDI flows, this brings into light the aspect of institutional factors, both formal and informal, concerning how they affect the FDI inflows in the KSA or elsewhere.

At a macro level and given the dynamic nature of the present study, the theoretical framework put into use is a blend of factors from the NIE, VoC and the OLI paradigms which are a representative framework for both formal and informal institutions. Ramady (2010) indicates that the perceived discrepancy arises because countries are the main justification for the performance of FDI inflow. Studies carried out by North (1990, 1991, 1999, 2005) indicate that institutions (both formal and informal) play a central role in determining the performance of FDI in any given country. A compilation of studies that investigated FDI inflow of the KSA such as Ramady (2010), Roberts and Almahmood (2009) and UNCTAD (2015) provided evidence that the poor FDI inflows in the KSA arise as a result of the weak formal and informal institutional incentives that are needed to attract the potential MNEs. It is based on the central position played by institutions that the theoretical framework from NIE forms a significant part of the theoretical background of this work.

In addition to institutional factors from the NIE, the OLI paradigm also remains significant in supporting the theoretical background of the present study. With regards to standard economic knowledge, the most efficient way of understanding how institutions affect FDI inflows in the KSA is to use theoretical constructs that analyse the effect of institutions in acting as investment incentives and the intellectual frameworks that analyse the performance of institutions as FDI determinants. In this regard, Dunning's OLI framework (Dunning, 2000) remains significant in analysing the behaviour of MNEs in relation to Saudi FDI inflows, thus identifying the role of FDI determinants in terms of institutional factors as reflected by North (2005) and analysis for the institutional incentives that determine FDI inflows. The analysis of Dunning's work from 1987 to 2006 in collaboration with others shows the evolution of the eclectic paradigm into embracing the dynamic position of institutions with regards to FDI performance of a given country (Dunning and Lundan, 2008).

Dunning and Lundan (2008) updated the OLI paradigm to accommodate or consider the institutional influences (formal and informal) inside the MNE as well as those between it and the external environment in which the firm operates (Table 3.3 in Chapter 3). This theoretical combination is supported by Ali et al. (2010) who indicate that a theoretical model is formed when two separate frameworks analysing the diverse roles of institutions are put together. The VoC theory is also significant in the description of factors affecting FDI inflow given the fact that its framework analyses a myriad of independent variables that affect the depended variable, which is FDI. Figure 4.2 in section 4.3.1 shows both formal and informal independent variables that influence FDI inflows in the KSA. In short and more specifically, the formal and informal institutional factors used in the present theoretical framework were formulated as a result of the combination of the NIE theory, and the VoC theory, and Dunning's eclectic OLI paradigms. Based on these, institutional avoidance factors, adaptation factors and co-evolution factors are considered for both formal and informal institutions for British MNEs investing in the Saudi market.

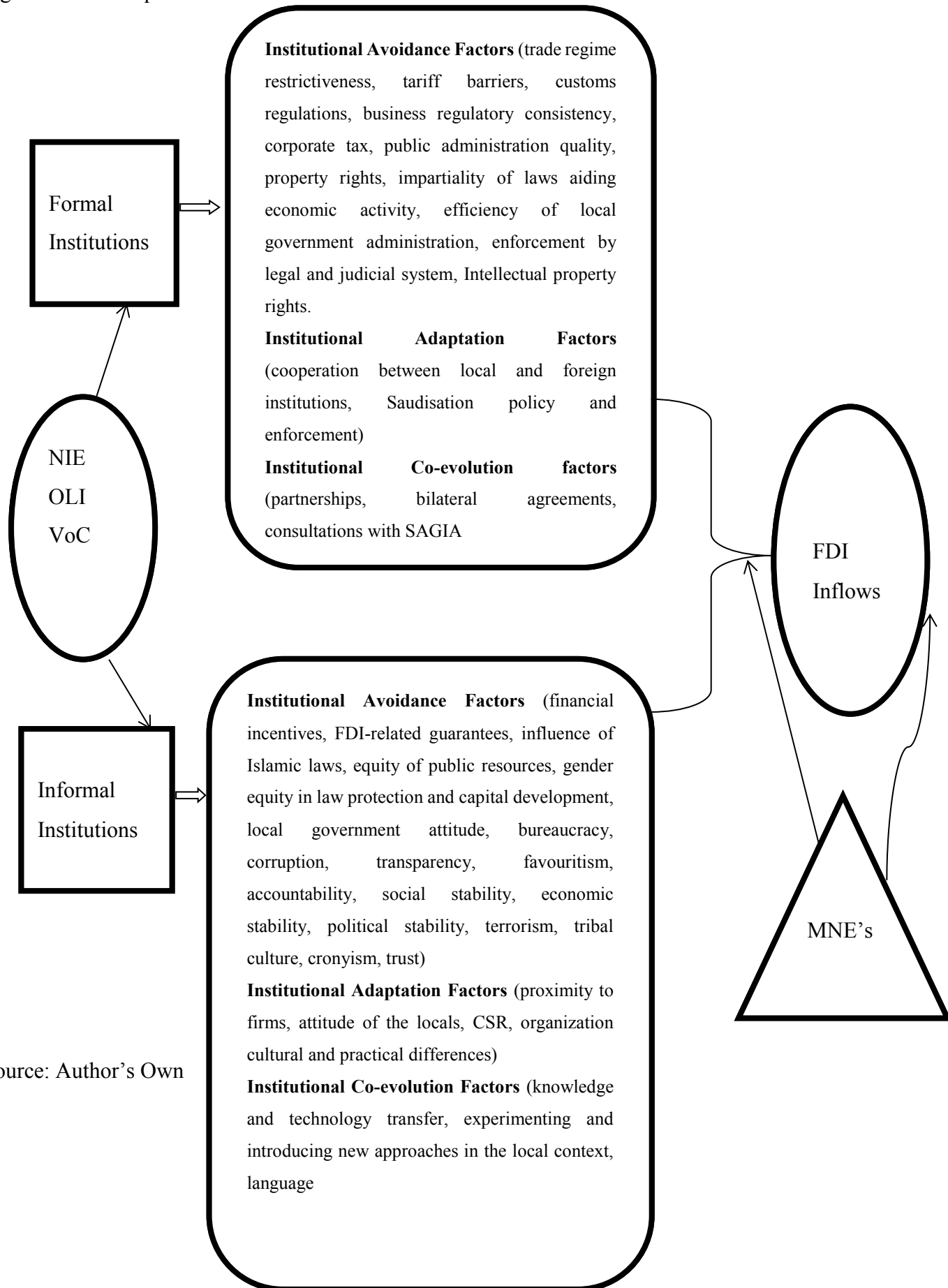
4.3 Research Model

The aspects explored under the present research model have been discussed under the NIE theory in Chapter 2 and Chapter 3. To avoid repetition, this particular segment of the study heads into the specific institutional issues that are linked to the FDI influence of the KSA, exploring both formal and informal dispensations. While much of the theoretical coverage is derived from the work of established scholars such as Daude and Stein (2007) North (1990, 1991, 1999, 2005), Coase (1937), Hofstede (1991), Dunning (2000), Dunning and Lundan (2008) among others, specific information regarding the KSA is derived from the SAGIA report (2006 and 2010) and recent studies carried out in relation to the MENA region (Mina, 2013; Asiedu, 2006; Trevino et al, 2008 and Daniele and Marani, 2006). A combination of both formal and informal institutional factors are then analysed in a sequential order deducing strong points that can be capitalised on by the KSA in the ongoing economy diversification initiatives (Ramady, 2010).

The literature in the study has discussed the institutional factors that are being adapted and valued by British MNEs currently operating under FDI arrangements. A conceptual model has been developed to capture the information on FDI inflow into the KSA from MNEs from

Britain. The study's main intention was to determine the institutional factors that are valued and adapted by British MNEs currently operating in the Saudi market, as well as highlighting those factors that impede their operations, and the region's institutional environment. The objective was to capture a clear picture of how these organizations perceive, and correspondingly adjust to fit and act to co-establish changes in their given environments. Specifically, the impact of institutional environments were reviewed to ascertain how influential they are to foreign investors. As mentioned in the theoretical grounds section, the researcher feels it is necessary to identify the institutional adaptation, coevolution, and institutional avoidance factors considered by British MNEs when making a decision to partake in FDI in the KSA. In this context, the research question, objectives and hypothesis tested can be summarised in a detailed and simplified conceptual model as shown by Figure 4-1. This is an extended model illustrating different components as outlined.

Figure 4-1: Conceptual Framework



Source: Author's Own

4.3.1 Kuznetsov and Jacob's (2015) theory of VoC

Institutions are regarded as the rules of the game which are backed by norms in the society. Institutions are important because they make representations of resources, opportunities and constraints for various actors and their operations. Through the VoC, firms are seen as actors and their different roles in the process of economic adjustment are the independent variables, and they include (Kuznetosove and Jacob, 2015):

- | | |
|---------------------------------------|---|
| 1. Training and Education | 11. Ownership advantage |
| 2. Industrial Relations | 12. Internalisation advantage |
| 3. Corporate Governance | 13. Location advantage |
| 4. Employee-firm Relations | 14. Location |
| 5. Inter-firm Relations | 15. Distance and Market Growth |
| 6. Institutional avoidance | 16. Environment |
| 7. Institutional adaptation | 17. Language |
| 8. Institutional co-evolution factors | 18. Intellectual property rights protection |
| 9. Company-funded training programmes | 19. Protection of foreign investors |
| 10. Organisational Structure | 20. Trust |

In the model, a firm's location factors will determine where they can operate on and how they can control their operations (mode choice). The mode choice is determined by the costs of transactions of the firm. Both location and mode choices act as the main drivers of FDI flows.

The research seeks to ascertain whether British MNEs are discouraged by the status of the institutions from the region to the extent that they limit their business practices according to the broad aspects of internalization. In addition, the study will collect data that will reflect important characteristics of MNE engagements. It will also seek to ascertain the relationship between the ability of the host country to attract investment and the institutional policies in place. Through the aims and objectives of the thesis, the researcher developed a viable conceptual framework as shown in the figure below:

The study aims to fill the gap in the debate of FDI in the KSA, through the provision of different factors that impede the inflows of FDI to the region. The objectives and hypotheses used in the research are geared towards filling the existing gap. A conceptual model has been developed

to capture the information on FDI inflow into the KSA from British MNEs. In addition, the study will collect data that will reflect important characteristics of MNE engagements.

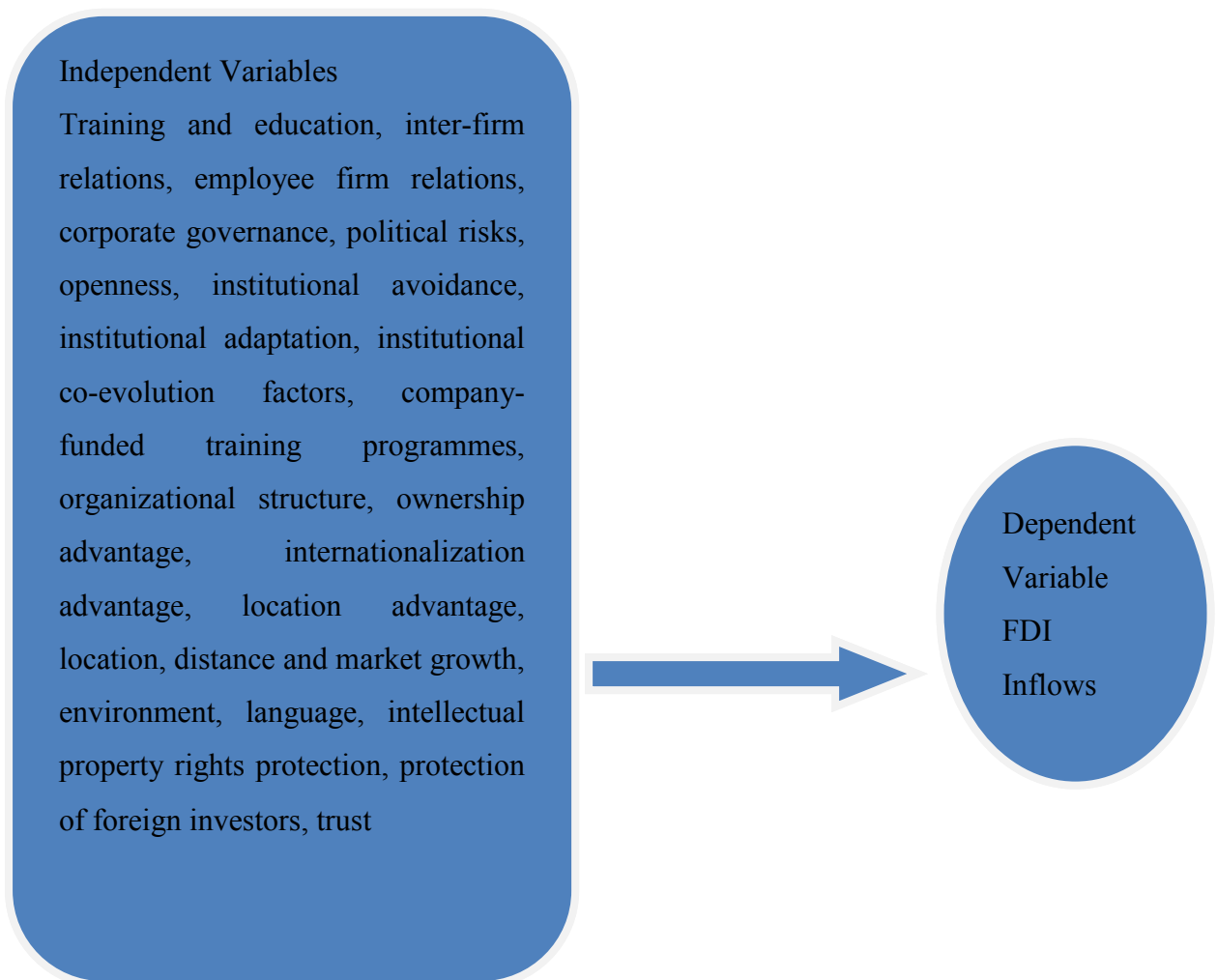
Dependent variable

The dependent variable in the study considers existing and future levels of FDI. Where firms are looking to invest in the future, this may be impeded or hindered by certain obstacles in the environment, which could lead to this variable being negatively correlated. This variable is covered in one of the items in the questionnaire. The use of FDI future inflows are essential as they allow the researcher to find information that is relevant to the various independent variables in accordance with previous research.

Independent Variables

Through the OLI paradigm and VoC theory it was possible to find the different independent variables that determine the establishment of MNEs in the KSA. These are important factors as they aid most MNEs in making investment decisions in the KSA. The variables are illustrated in in Figure 4-2:

Figure 4-2: Independent and Dependent Variables



Source: Author's Own work

4.4 Formal Institutional Factors

The formal institutional factors presented in this study are grouped into three categories, namely: **formal** institutional avoidance factors, formal institutional adaptation factors and formal institutional co-evaluation factors as shown in Figure 4.1 which illustrates the conceptual framework. Therefore, the first and main hypothesis is developed to test whether the formal institutional factors affect FDI inflow in the KSA, with four sub-hypotheses also being developed. Each sub-hypothesis is designed to test one factor as mentioned previously. Therefore, it can be hypothesised that:

H1. There is a positive and significant relationship between Formal Institution Factors and FDI in the KSA.

4.4.1 Institutional Avoidance Factors

This section lists the hypotheses used to analyse the factors that affect FDI inflow in the KSA, namely:

H1.1 There is a positive and significant relationship between Formal Institutional Avoidance Factors and FDI in the KSA

H1.1.1 Trade regime restrictiveness is significant and negatively associated with FDI in the KSA

H1.1.2 Tariff barriers are significant and negatively associated with FDI in the KSA

H1.1.3 Customers regulations are significant and negatively associated with FDI in the KSA

H1.1.4 Intellectual property rights are positive and significantly associated with FDI in the KSA

H1.1.5 Property rights are positive and significantly associated with FDI in The KSA

H1.1.6 Efficiency of local government administration is positive and significantly associated with FDI in the KSA

4.4.1.1 Trade Regime Restrictiveness (Openness)

Trade Regime Restrictiveness is a significant aspect when it comes to the dynamics of FDI performance in any given country. In a study carried out by Kohpaiboon (2003), trade restrictiveness is a term that is used to refer to the openness of a given economy. According to the literature, the ratio of GDP to trade can be interpreted as the restrictions that are set by different nations when interacting in the international trade arena (Asiedu, 2000). High barriers of trade lead to Horizontal FDI, because nations usually protect the overall output of foreign investors in the market through tariff jumping hypothesis (Busse, 2004). To make sure that trade openness is an aspect that is strongly adhered to; scholars insist that both formal and informal institutional factors have to be brought into play. For instance, in a study that was

carried out by Karim et al. (2014) on Malaysia, the authors postulated aspects related to FDI optimal performance. Malaysia synchronised cultural aspects with legal and policy provisions, an aspect that made it attractive for foreign investors. The same perspective is also shared by Kohpaiboon (2003) who indicates that export promotion trade regimes tend to have a greater impact on FDI performance. The KSA's poor performance indicates that several strategic manoeuvres have to be put in place and a study by Van Wyk and Lal (2010) is able to vindicate this fact by vouching for aspects such as trade openness to be the determining factor with regards to FDI performance in the KSA. In line with this the hypothesis (H1.1.1) mentioned above was formulated.

4.4.1.2 Tariff Barriers

An analysis of the global economy shows that FDI has been on the rise, and with a fair share of restrictions. One of the impediments that limits the flourishing of FDI is the trade tariffs that are imposed by individual countries. In a study carried out by Lebrand (2015), trade barriers act as double-edged swords that cut on both sides of the divide. Analysts who are short-sighted with the unlimited potential of FDI end up dismissing the need for tariff barriers but as Lebrand (2015) acknowledges, such initiatives taken by a country ensure the stability of home grown industries. Without trade tariffs, foreign companies as acknowledged by Lebrand (2015) can end up exploiting the developing economies for their own benefit. To ensure sanity of the market, it is inevitable that tariffs need to be abolished. Strict tariffs often end up harming foreign investment initiatives.

In different point of view, the literature review of tariff jumping FDI discussed the tariff barriers in depth. In this argument Ionascu and Zigic (2004, p.1) states that:

“when domestic firms are inefficient, and spillovers are small, the socially enhancing policy is to encourage foreign investors to establish subsidiaries in the domestic market that price aggressively and drive the inefficient (local) firms out of the market. When domestic firms are inefficient but spillovers are high, foreign subsidiaries would find fighting entry to be too costly, so they would behave “nice” towards their rivals and charge monopoly prices. Therefore, it becomes socially optimal to set small tariff that still bring some tariff rents but preserve to some extent foreign firms’ cost advantage and thus, their

incentive to fight the entry of the domestic firms. However, when domestic firms are efficient, exports and FDI are equivalent in all respects: domestic and foreign profits, prices, and supplied quantities.”

As highlighted by the SAGIA report of 2006, one aspect that cannot be ignored is that the KSA is a country with restrictive regimes in place, only allowing the majority of the multinationals in the country through joint ventures with the local players. While it would be ill-advised to do away with tariffs for the sake of FDI, Lebrand (2015) suggests it would be beneficial for developing economies such as the KSA to restructure their tariffs and provide some space for foreign firms. In line with this, the hypothesis (H1.1.2.) mentioned above was formulated.

4.4.1.3 Customs Regulations

The benefits that come with stable FDI inflows confer numerous economic advantages to the host nation. In an advisory study carried out by Sun (2002), various initiatives that control the performance of FDI have to be put in place and one of the strategic approaches is having customs regulations in place. As acknowledged by the author, various regions worldwide, especially non-OECD countries, have benefited a great deal in terms of host nation FDI inflows by playing with the customs regulations (Al-Thumairi, 2006). Based on an investment climate statement of the KSA from the US Department of State in 2015, the KSA has made tremendous steps towards increasing FDI inflows by capitalising on favourable custom regulations and other relevant legal statutes that promote foreign investment activities. This a significant change from what was revealed by the SAGIA report of 2006 almost a decade ago. To ensure that FDI inflows continue flourishing in the host nation, Sun (2002) indicates that formals aspects such as customs regulations have to be structured favourably considering the predicament of both foreign and home grown companies. In line with this the hypothesis (H1.1.3.) mentioned above was formulated.

4.4.1.4 Intellectual Property Rights and General Property Rights

According to the US state department (2015), the KSA undertook a decisive step from the beginning of 2002 with regards to improving its Intellectual Property (IP) rights to be in

accordance with the provisions of the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). In 2002, the KSA government updated its trademark law. In 2003, the copyright law was advanced and the Patent law was put into place in 2004. From an expert point of view, Seyoum (1996) indicates that IP rights are positively related to a healthy FDI. After carrying out an analysis in 27 countries, Seyoum (1996) acknowledges that IP rights have a strong impact on inward investment compared to other economic policy initiatives. This view is also shared by Tanaka and Iwaisako, (2014) who insist that strong IP rights are proportionally linked to the rate of FDI inflows.

Much of the discourse has been accorded to the significance of IP rights but if the deductions of the SAGIA report of 2006 are anything to go by, then the real property rights are also just as significant. Concerning inward investment in host nations, most multinationals have been shying away due to the restrictive legal regimes put in place with regards to physical business resources. As acknowledged by the US department of State (2015), the KSA has been improving in that particular area with foreign investors who are non-citizens allowed to own business related assets. An expert opinion from Tanaka and Iwaisako (2014) indicates that when harsh property ownership regimes governing the activities of MNEs are put in place, many potential investors tend to shy away, thereby affecting the inward performance of FDI in the host nation. In line with this the hypotheses (H1.1.4. and H.1.15) mentioned above were formulated.

4.4.1.5 Enforcement by Legal and Judicial System

This is one of the significant factors that MNEs reflect upon before stepping into the international market arena. With regards to the KSA, the enforcement of the legal and judicial system remains a hot topic for the international business community given that most of the practices and the judicial system in place in the host country are not familiar to many foreign investing countries. Within the report by the US Department of State (2015), one factor in particular that has made potential foreign investors shy away from the KSA is that of the legal enforcement mechanisms and the judicial process in the country. Based on its biography, Saudi's legal and judicial regimes are directly underpinned by the Islamic provisions of the Quran (the Muslim holy book). Some of the practices that are deemed standard and acceptable by the natives are not viewed from the same optical lens by the international community. An

expert opinion by Perry (2000) acknowledges that a good legal enforcement and judicial system should be able to accommodate practices that are deemed standard and are applicable to people with diverse backgrounds. One of the FDI inhibitors identified by the SAGIA report of 2006 was the unfavourable legal enforcement and judicial system in the country. In 2007, the King committed serious resources into refurbishing the judiciary by undertaking initiatives such as training of Judges. Little change, it would seem has been made up until now, but despite this the future still looks promising. In line with this the hypothesis (H1.1.6.) mentioned above was formulated.

4.4.1.6 Local Government Administration

The role of local government remains significant in the synchronisation of the required conditions necessary for the thriving of both local and international business activities. According to Dorozynski et al. (2014), the local governments play a completely different role from that which the state/national government does. It is through the local government that the authors indicate the right incentives to attract the right investors. Eastern or Central Europe are regarded as blocks when it comes to FDI analysis. However, Dorozynski et al. (2014) acknowledge that each local government has unique preferences, incentives and capabilities with regards to promoting foreign investment. Besides this, the local government administration is directly involved in enforcing and making sure that the available legal statutes are followed appropriately while all potential investors are accorded the much needed incentives. In line with this the hypothesis (H1.1.6) mentioned above was formulated.

4.4.2 Institutional Adaptation Factors

The second element of the formal institution includes a set of adaptation factors that could be tested by this hypothesis which include sub-hypotheses as shown below:

H1.2 There is a positive and significant relationship between Formal Institutional Adaptation Factors and FDI in the KSA

H1.2.1 Cooperation between local and foreign institutions is positive and significantly associated with FDI in the KSA.

H1.2.2 The Saudisation policy and enforcement are significant and negatively associated with FDI in the KSA.

4.4.2.1 Corporation between Foreign Entities and Local Institutions

Cooperation between foreign and local institutions is one of the fundamental economic occurrences that ensure maximum output is yielded from the FDI initiatives. However, this is not always the case when it comes to the requirement that local entities have to work with foreign entities. More studies trying to establish the effects of institutional factors on the ratio of FDI have been availed by different academics. Wei and Smarzynska (2000) and Wei (1997) concentrate on the aspect of corruption while Henisz (2000b) analyses the factor of political instability. According to their scrutiny of the provided factors, these are some of the reasons that foreign investors opt for joint ventures when investing in an unstable country showcasing the above-mentioned traits. Regardless of the institutional justifications provided, Buckley and Casson (1976) still do not see a joint venture as the best option for foreign investors because of the unstable decision-making mechanisms. According to these authors, conflicts over managerial decisions are bound to happen every other time. However, it is important to appreciate that it is a viable mechanism for foreign investors to enter into business environments that have great potential, but do not come without risk (Buckley and Casson, 1976). Covered by the UNCTAD report (2006), one aspect that was prevailing as the barrier to FDI enhancement in the KSA was the need for a joint venture for foreign firms to operate within the country. In line with this the hypothesis (H1.2.1) mentioned above was formulated.

4.4.2.2 Saudisation Policy and Enforcement

The KSA has been making efforts to replace foreign workers businesses with locals. It is worth noting that expatriates from different parts of the globe compete with Saudis for jobs. Similarly, the KSA government has been under pressure to curb the increase of foreigners who are investing in small businesses that locals can do (Randheer and Al-Aali, 2015). The KSA came up with the Saudisation project, which aimed at replacing the high percentage of foreign workers with locals. However, the fact that common Saudi nationals do not have matching skills and experience which makes it difficult to implement the idea (Randheer and Al-Aali, 2015). While the enforcement of the policy may be seen as being welcome to locals and the

local economy, it is not so positive for foreign investors who are responsible for initiating the FDI. One of the concerns is that the government will not support businesses once the investors establish their businesses in the KSA. Another concern is that the Saudisation Policy will compel the foreign investors to employ local talent, which may not match the skills, knowledge, and experience that foreigners possess now (Randheer and Al-Aali, 2015). Tellingly, FDI will reduce significantly due to the discouragement of the foreign investors once the KSA fully enforces the policy. In line with this the hypothesis (H1.2.2) mentioned above was formulated.

4.4.3 Institutional Co-evolution factors

The third element of the formal institutional factors is a set of co-evaluation factors. The establishment of bilateral agreements is the key promoter of FDI. This section lists the hypotheses used to analyse the factors that affect FDI inflow in the KSA. These are as follows:

H1.3 There is a positive and significant relationship between Formal Institutional Co-evolution Factors and FDI in the KSA.

H1.3.1 There is a positive and significant relationship between Bilateral Agreements and FDI in the KSA.

4.4.3.1 Bilateral Agreements to Promote FDI

The Kingdom of the KSA has established multiple business-related bilateral agreements with economically superior nations such as the United States, Australia, and the United Kingdom among others. For decades, these bilateral relations have allowed multinational corporations from the specific countries to operate in the Kingdom. A study by Vu and Im (2013) revealed how the bilateral agreements between the US and Asian countries favoured their economy by encouraging FDI inflow in those countries. In yet another research, Izuchukwu and Ofori (2014) related the increased FDI inflow to Africa due to the bilateral relations between the specific African countries with China. These findings provide empirical evidence that bilateral agreements between the KSA with economically powerful partners can significantly improve FDI inflow (Abumangosha, 2014). In most case, signing trade deals when establishing such bilateral ties provides favourable conditions for multinational corporations from such countries to invest in either country. Therefore, it is logical to argue that the future inflow of FDI will

depend on the nature of the bilateral agreement between the KSA and other countries. It is also worth noting that a bilateral agreement can encourage FDI inflow if the country in question is superior economically. In line with this the hypothesis (H1.3.1) mentioned above was formulated.

4.5 Informal Institutions

The second main part of the framework of the present study is informal institution that include the three categories, institutional avoidance factors, institutional adaptation factors, and institutional co-evaluation factors. Therefore, the main second hypothesis to test the informal institution is:

H2. There is a positive and significant relationship between Informal Institution Factors and FDI in the KSA.

4.5.1 Institutional Avoidance Factors

The first category of the informal institutions is institutional avoidance factors. To test these factors, hypotheses are developed as follows:

H2.1 There is a positive and significant relationship between Informal Institutional Avoidance Factors and FDI in the KSA

H2.1.1 Political stability is positive and significantly associated with FDI in the KSA

H2.1. 2 Social stability is positive and significantly associated with FDI in the KSA

H2.1.3 Corruption is negative and significantly associated with FDI in the KSA

H2.1.4 Influence of Islamic laws are negative and significantly associated with FDI in the KSA.

H2.1.5 Cronyism is negative and significantly associated with FDI in the KSA.

H2.1.6 Tribal culture is negative and significantly associated with FDI in the KSA.

H2.1.7 Equal status and protection under the law for men and women is positive and significantly associated with FDI in the KSA.

4.5.1.1 Political Risks

Efficient and peaceful systems often attract more FDI compared to those which are volatile in nature (Sekkat, 2004). To gain stability, foreign investors have to increase their contact in order to achieve insider status (El-Said and McDonald, 2002; Hellman et al., 2000). The relationship status can however change depending on the bargaining power between the local authorities and foreign firms. According to Eden and Molot (2002), the time at which foreign firm enters together with the prevailing local environment often influences the bargaining power. This makes it significant to narrow down on the issue of political stability, which is a necessary condition in the definition of both formal and informal institutions in the country in question. Conversely, the Political risks on the hand are merged by Voss (1987) into two categories: first, risks that are largely beyond the control of the host country which include for instance wars, insurgency, and severe political instability, where governments attempt to neutralise the risks faced by multinationals largely by providing insurance to cover them. The second category, the political risks that are within the control of the host country. Under this category, the government though its policies can explicitly encourage economic reform policies and attempt to minimise the effects brought about by the internal political risks. According to the FDI Intelligence website. Safi (2012) highlighted how the 2011 Arab spring had a serious impact on the FDI levels in the MENA region. For instance according to the report, FDI in Libya and Yemen fell by 80 percent. In the KSA's scenario, regardless of the reports indicating there was a slight improvement, the \$14 billion obtained in 2011 from foreign investments was nowhere close to the \$40 billion that was achieved back in 2008. According to the profile coverage by BBC (2016), the KSA is not yet in the clear zone regarding political stability and as Eden and Molot (2002) pointed out, the bargaining power of foreign firms is most often underpinned by the prevailing circumstances. In line with this the hypothesis (H2.1.1) mentioned above was formulated.

4.5.1.2 Social Stability

While most of the countries in North Africa and Middle East have continued to experience social unrest, the Kingdom of the KSA has remained stable. Investors are concerned about the safety of their businesses. Investors will always avoid markets that are experiencing social instability. Despite the distinction between social and political instability it seems to be unclear

because they affect in varied locations but, the social instability reflects the potential risks surrounded the community. In this regard, Bekefi and Epstein (2006) reported that social instability can be the result of risks such as disease, infringement of the rights of indigenous people, damage to the environment and some other challenges. Therefore, social instability differ than political, where the second refers to the risks that can be understood as execution of political power that threatens a company's value. However, the KSA continues to enjoy peace, investors are learning from other markets in the Middle East. Recently, Najaf and Ashraf (2016) proved how instability in Pakistan led to a significant drop in FDI inflow. Najaf and Ashraf, (2016) and Martinez and Allard, (2009) concluded that social instability would always drive away investors since they want their investment to remain secure. The findings seems to match with previous revelations by Bandelj (2002) that indicated how socially stable European countries received more FDI inflow compared to those that faced social unrests. Therefore, the findings, which emerged more than a decade apart confirms that social stability is a critical factor that determines the inflow if FDI. In line with this, the hypothesis (H2.1.2) mentioned above was formulated.

4.5.1.3 Corruption

Corruption is a serious problem that is affecting investors' decision-making on which country offers a favourable environment for doing business. Investors shun corrupt countries due to the unfairness of trade that occurs. For instance, investors might fail to secure a crucial tender just because one of the competitors has bribed those involved in awarding the tender. Corrupt-free countries offer excellent platforms, where competitors can compete fairly. A high level of corruption also relates to mismanagement of the funds that affects the economy of the entire country (Busse, 2004). Instead of investing taxpayers' money on development projects, few individuals benefit when a country subscribes to corrupt dealings. Therefore, the majority of the population in a country tends to possess limited purchasing power since the wealth and income goes to the corrupt few. Since investors are concerned about the ability of the population to purchase their products, any corruption levels that make it difficult for people to afford their products keep such investors away. On the other hand, Dahlström and Johnson (2007) reported that FDI can be influenced negatively due to corruption. For instance, corruption can increase the cost of FDI since the company has to pay bribes, which may be considered as extra tax not ruled by law. Moreover, corruption will increase uncertainty

resulting from lack of law and absence of regulation, and thus, the government cannot provide enough protection for FDI. On the other hand, corruption might have some positive impact on FDI. For instance, in corrupt countries, bribes reduce the time of bureaucratic procedures and paper work. It can skip inspections, reduce taxes or even receive government funding. In line with this, the hypothesis (H2.1.3) mentioned above was formulated.

4.5.1.4 Influence of Islamic Laws

The KSA subscribes to Islamic laws. The Kingdom has religious importance, as millions of Muslims from all over the world make annual pilgrimage to Mecca. Therefore, Islamic laws play a crucial role in governing how businesses operate. For example, Islamic law prohibits lenders from charging interest. Without such interest, banks might not operate profitably. For foreign investors, the manner in which the Islamic laws restrict their businesses is critical. In particular, companies dealing with products that are deemed unacceptable by the religious standards find it difficult to survive in a country whose population subscribes to a particular religion. The religious beliefs of the consumers have a tendency to guide them toward which product to purchase or avoid. Since Islamic law governs consumers' behaviours, even the best promotional campaigns will not convince the people to purchase a product that goes against their religion (Vu and Im, 2013). In line with this, the hypothesis (H2.1.4) mentioned above was formulated.

4.5.1.5 Cronyism

Cronyism is an illegal practice of partiality, where those in authority favour their friends or supporters who will return their favour. Like corruption, cronyism creates an unfair environment for businesses to operate. In other words, those in authority will always favour investors who are willing to support the unethical behaviour of those who favoured the business. Investors who prefer ethical ways of doing business will always select countries that do not entertain cronyism. Studies show that cronyism and corruption leads to diminishing economic performance (Roberts, 2010; Shah, 2011). Therefore, investors will always interpret high levels of cronyism as an indication of poor economic performance. A study by Roberts (2010) revealed how cronyism in Malaysia affected the valuation of genuine businesses. According to Roberts (2010), all the businesses that were closely linked to the Prime minister

gained regarding stock prices. Investors are interested in business environments that are free from political interference, where businesses can compete in offering the best through strong policy formulations (El-Wassal, 2012). Cronyism therefore, leads to insider-outsider problems. In line with this, the hypothesis (H2.1.5) mentioned above was formulated.

4.5.1.6 Tribal Culture

The culture of the KSA is defined by Islamic religious beliefs. Before investing in a particular nation, multinationals tend to conduct market analysis in a bid to determine how the culture will affect their operations. Welcoming culture will always encourage investors to set up in a country. It is also worth noting that tribal culture is an important factor that determines consumption behaviour. A business becomes viable if the product it deals with is acceptable in the host country. In this case, the KSA culture is a welcoming one. However, not all products will be acceptable as per its tribal culture, for example certain types of clothing and some food items. Therefore, investors whose products are not acceptable in a society will always stay away from such markets. Therefore, the FDI inflow will be affected depending on the restrictive nature of the tribal culture.

Coval (1999) mentioned that culture in addition to variation in regulation and taxation, is a main factor which discourages investment abroad. Grinblatt and Keloharju (2001) on the other hand, went deeper and examined the effect of culture, language and distance on investment; they found that investors prefer to invest in countries that share the same-language and the same culture. Moreover, culture showed a positive relationship to ownership. Culture has an effect on FDI inflow, which is interpreted in receding informational frictions and induces investment (Grinblatt and Keloharju, 2001). Considerable research shows that economic exchanges and their reflection on FDI inflow can be due to differences in culture (Flörkemeier, 2002; Guiso et al, 2005; Heuchemer and Sander, 2008, Ekinici et al., 2007). In line with this, the hypothesis (H2.1.6) mentioned above was formulated.

4.5.2 Institutional Adaptation Factors

The second category of the informal institutions is institutional adaptation factors, the informal institutional adaptation factors will be tested through corporate social responsibility.

To test this factor, hypotheses were developed as follows:

H2.2 There is a positive and significant relationship between Informal Institutional adaptation Factors and FDI in the KSA.

H2.2.1 Corporate Social Responsibility (CSR) is positive and significantly associated with FDI in the KSA.

4.5.2.1 Corporate Social Responsibility

Although the overriding objective of investing is to make profit, businesses have the obligation of giving back to the community. Corporate Social Responsibility (CSR) is becoming more important as communities and authorities become increasingly aware of the environment and social impact that such companies have. The amount of capital that businesses invest in order to remain socially responsible tends to affect the overall income depending on the percentage of income that a firm decides to invest in the CSR programs. In some countries, businesses are free to choose what they wish to set aside for CSR programs. In other countries, the businesses have to adhere to specific standards when it comes to CSR. According to Akwaowo and Swanson (2016), investors prefer venturing in markets that do not force them to invest a huge amount of their income on CST expensive programs. Therefore, it is critical to observe the law governing multinational corporations operating in the KSA. In particular, it will be important to observe how the Kingdom of the KSA is handling the issue of CSR. In line with this, the hypothesis (H2.2.1) mentioned above was formulated.

4.5.3 Institutional Co-evolution Factors

The third category of the informal institutional factors are related to co-evaluation factors. Under this category, hypotheses are developed as follow:

H2.3 There is a positive and significant relationship between Informal Institutional Co-evaluation Factors and FDI in the KSA.

H2.3.1 Knowledge and technology transfer are positive and significantly associated with FDI in the KSA.

H2.3.2 Experimenting and introducing new approaches in the local context are positive and significantly associated with FDI in the KSA.

H2.3.3 Language is positive and significantly associated with FDI in the KSA.

4.5.3.1 Knowledge and Technology Transfer

Human resource is crucial when choosing an investment destination. Before investing in a particular market, investors will always examine the human resource of that particular country. The idea is to ensure that the company chooses a destination whose population have the expertise required to run the business. On the same note, investors tend to look at the laws governing the employment of foreigners. A country that strictly pushes for the employment of employees from within makes it difficult for companies to transfer technology to the market. Therefore, investors will always prefer markets that not only give them knowledgeable employees but also allow them to transfer technology by employing experts from other countries. In their study, Chuang and Lin (1999) discovered a positive association between research and development led to increased FDI inflow in Taiwan. This finding shows how the knowledge transfer through education allowed more Taiwanese to work in the industry. Therefore, international investors decided to invest to take advantage of the technologically advanced and knowledgeable human resources that Taiwan offered. Therefore, and for the purpose of the present study, this factor will be investigated from the investors' point of view, because they – as practitioners – can provide information to reflect to what extent FDI inflow has been attracted due to the level of knowledge provided and the technology transfer in the host country. In line with this, the hypothesis (H2.3.1) mentioned above was formulated.

4.5.3.2. Protection of Foreign Investors and Language

In relation to the issue discussed above, the KSA has been known for its harsh approach to its citizens. It is one of the profile aspects that defines the country as analysed by BBC (2016). However, contrary to the KSA approach, the western people, where the potential of MNEs are located, people view life differently and freedom is as significant as any right. This forms a cultural barrier and is defined as the significant aspect of informal institutions by North (2005) and is also comprehensively covered by Hofstede (1991), who see that the cultural factor remains significant in enhancing activity of foreign firms in any development oriented market. Language also does play a significant role in FDI determination as per the deductions of

Hofstede's cultural theory. In line with this, the hypotheses (H12.3.2) and (H2.3.3) mentioned above were formulated.

4.7 Summary

This chapter has presented the theoretical framework of the study and provides a clear definition of institution factors in the KSA. The research discussed extensively the different determinants of FDI and the different advantages to host and home economies, followed by a summary of the hypotheses (Table: 4.1).

It is noted that foreign investors are also more likely to look for those markets that are similar in structure to their home country. Culture of the host country is also known to create some form of order as it directs how people should behave and expect. It has a tendency to punish its violators. As such, foreign investors are aware of cultures that enable business environments to flourish and others that limit business activities. Apart from these variables that can also translate into barriers of foreign investment. As already mentioned in Chapter 1, the KSA has experienced a downward trend in its FDIs in the past five years. To attract more foreign investors, it has to consider all the factors that provide a positive business environment for MNEs. Foreign investors are also attracted to growing economies and the KSA can benefit by directing its resources towards building on its economic growth.

The literature used in this work gives a detailed overview on whether the institutions from the KSA affect the inflows of British FDI in the Saudi market. This study demonstrates that poor institutions negatively affect the initial amount of FDI that a given country receives (Kaufmann et al., 2004). Other aspects, such as control of corruption, political instability, regulations and property rights, are major factors that affect inflow of FDI into the Saudi market. Furthermore, a poor economy, in this case characterised by diminishing levels of FDI inflows, can be explained by a low index in terms of quality of regulation or low protection when it comes to property rights. For this reason, some countries may require policies that reduce regulations (UNDP, 2015).

Table 4-1: Research Hypotheses Table

Research Hypotheses Summary
<p>H1. There is a positive and significant relationship between Formal Institution Factors and FDI in the KSA.</p> <p>H1.1 There is a positive and significant relationship between Formal Institutional Avoidance Factors and FDI in the KSA.</p> <p>H1.2 There is a positive and significant relationship between Formal Institutional Adaptation Factors and FDI in the KSA.</p> <p>H1.3 There is a positive and significant relationship between Formal Institutional Co-evaluation Factors and FDI in the KSA.</p> <p>H2. There is a positive and significant relationship between Informal Institution Factors and FDI in the KSA.</p> <p>H2.1 There is a positive and significant relationship between informal Institutional Avoidance Factors and FDI in the KSA.</p> <p>H2.2 There is a positive and significant relationship between informal Institutional Adaptation Factors and FDI in the KSA.</p> <p>H2.3 There is a positive and significant relationship between informal Institutional Co-evaluation Factors and FDI in the KSA.</p>

Chapter 5 : The Saudi Economy, Institutions and Legal Framework for the inflow of FDI

5.1 Introduction

The KSA's economic development has experienced a large extension in oil exportation for the last 70 years. This has resulted in the growth of FDI inward inflows, from \$5.2 million in 1961 to \$220 million in 2014 (UNCTAD, 2015). This chapter will provide a detailed report on the KSA's economy and all the institutions involved in the legal framework for FDI since the year 2000. This will provide an avenue for the detailed analysis of the FDI framework that will be covered in the next chapter.

This chapter explains how the KSA has benefited from the petroleum sectors that have opened many opportunities for the nation. However, too much dependence on a single commodity alone can be highly risky for such a growing country and it may be prone to external threats that may affect the economy. As a move to counter this, Saudi's government has advocated for the legislation of the Foreign Investment Act in 2000 and the establishment of The Saudi General Investment Authority (SAGIA) and National competitiveness Centre (NCC) to attract foreign investment to the country (SAGIA, 2009).

This chapter consists of five sections, which are as follows. The first section gives an overview of the Saudi economy with a description of common FDI trends. The second section provides information about the development of Saudi's economy and its indicators. A description of the legal framework used in governance of FDI makes up section three. This is followed by the institutional highlights of the KSA, with a conclusion being provided in the final section.

5.2 The Economy of the KSA

5.2.1 Overview

Geographically, the KSA which is both an Islamic and Arab nation, is located at the crossroads of the Arabian Peninsula that is between Asian and African continents. The Kingdom was established by King Abdulaziz Al-Saud in 1932 and up until now, has been under six different

rulers. The country has witnessed considerable development economically, specifically regarding the Gross Domestic Product (GDP) of the nation, which has witnessed a tremendous increase since 1968.

The KSA's location on the Arabian Peninsula has played a major role in its social and economic growth. As a trade centre and a land that has undertaken several civilisations in the past millennium, it has positively contributed to the massive growth in the country. Within the KSA which is the centre of Islamic religion and culture, are the holy cities of Medina and Mecca. Every year, millions of pilgrims assemble in Mecca at specific times to perform certain prescribed religious 'rites' that are designed to boost faith, spirituality and show subservience to and draw closer to the Creator (Allah); this being commonly referred to as Hajj. Monarchy leadership is regarded as the central institution in the KSA. The Koran is the holy text according to Islam and is used as a central and focal reference point for the Saudi constitution. In addition, the country is governed by Shariah laws (derived from the Koran and prophetic narrations), which embody all aspects of Islamic activities, pervading the societal norms and culture of the KSA.

According to Ham, Sham, and Madden (2004), the KSA covers about 80% of the entire Arabian Peninsula which is approximately 2,149, 690 square kilometres. The country borders seven countries with three famous waters; Red Sea, Gulf of Aden, and Arabian Gulf surrounding it. On the west lies the Red Sea while on the east are the ancient views of Qatar, Bahrain, Arabian Gulf, and the United Arabs Emirates. Similarly, along the border, there are a few lakes, sand dunes, gravel plains as well as barren land. To the south is the largest sand desert commonly referred to as Rub Al-Khali. The Tihama Mountain ranges of the Asia Province can be seen from the southwest, and rise to over 9,000 feet. Riyadh, the capital city of the kingdom is located at the central region of the "Najd" plateau (Ham et al., 2004).

The Kingdom is comprised of five geographical regions which are subdivided into 13 provinces. The provinces are the: Eastern Region (Eastern Province); Western region (Makkah and Al Madinah Provinces); Middle Region (Riyadh and Alqassim Provinces); Northern Region (Tabuk, Hail, Aljawf and the Northern Frontier Provinces); and the Southern Region (Asir, Najran, Jazan and Albaha Provinces) (Saudi Central Department of Statistics and Information, 2009). All of these are clearly illustrated in Figure 5.1 below.

Figure 5-1: Map of the KSA and the 13 Provinces



Source: Royal Embassy of the KSA Tokyo/ Discover the KSA (2008).

The KSA is considered one of the major countries in the Middle East and North Africa (MENA) region. According to the Middle East and North Africa Region Economic and Development Prospects 2007 report by the World Bank, the MENA regions are divided into three major types of economy: *resource-rich, labour-abundant economies* of which Iraq, Islamic Republic of Iran, Yemen and Algeria fall into this category; *resource-poor, labour-abundant economies* finds Morocco, Jordan, Arab Republic of Egypt, Djibouti and Tunisia a part of; and *resource-rich, labour-importing economies* includes Libya, Kuwait, United Arab Emirates, Qatar, and Bahrain.

The KSA is in the group of *resource-rich, labour-importing economies* since it is rich but most of the labour is imported. Among all the Arab MENA countries, the KSA has the largest economy. This means that out of the total output in the MENA regions, 25% of the GDP is from the KSA (World Bank, 2012).

In 1939, Chevron Oil or the Standard Oil Company of California was given an oil concession by the KSA's then king, Abdul Aziz Al-Saud, which formed a strong relationship and joint

venture for oil exploration and production. This was when Saudi Aramco was formed which consisted of the largest oil services in the world owned by the government and was later nationalised in 1975. In the KSA, about 75% of the revenues comes from oil which forms 90% of the country's export (SAMA, 2012). According to a report by SAMA (2012), about 50% of the national gross domestic product (GDP) in the KSA was contributed by revenues from oil. Furthermore, from 1968 to 2011, an increase of 20% in share oil has been observed in the total output (SAMA, 2012).

The GCC countries are the major partners in the non-oil trade in the KSA (SAMA, 2012). The major countries involved are Oman, the Kingdom of Bahrain, United Arab Emirates, Kuwait, Qatar and the KSA. According to SAMA (2012), trading oil with GCC countries represented 21.8% of the Kingdom's non-oil exports and 16.3% with other Arab trading countries of the non-oil goods and services.

5.2.2 Growth of the Economy in the KSA

The KSA was founded in 1932 and since then, it has achieved a massive transition in the economy. Before the major transformation, the Saudi economy was involved in small economic activities but now it is able to interact with the rest of the world economically (SABB, 2007). Back in the 1940s, it was characterised by a pastoral economy where the main focus was more on animal keeping, but there was no sign of formal education. Most people lived in villages with houses made of mud bricks with agricultural activities as the main source of income. The KSA's economic development has been facilitated by the exploitation of the oil reserves either directly or indirectly. For the past three decades, it has gradually become the world's largest oil producer.

In 1938, the discovery of oil fields commenced with the discovery of Aldahran fields which were located on the east coast. They were discovered by the California Arabian Standard Oil Company (CASCO), which was an affiliate of Standard Oil of California (SOCAL), also known today as the Chevron Corporation in America. This discovery led to a slight change in terms of development but made a greater impact due to two events. First, it was the establishment of the Saudi American Oil Company in 1944, which produced a lot of oil for the country since its first exports in 1939. Second, it was the establishment of new towns and the

discovery of more oil fields. Most of these oil fields were located in the Middle and Eastern regions.

The KSA's Oil Minister recently indicated that oil reserves are expected to grow from the current 262.3 billion barrels to approximately 420 billion barrels come 2025 (International Energy Agency, 2005).

5.2.3 Existing Development Plans

As discussed before, the KSA relied much on oil reserves for its economic development. This may be unsustainable in the long-run, therefore this desire caused the Kingdom to come up with development plans to help them to achieve economic diversification. The KSA started creating a development approach in 1969, which saw the oil returns rise tremendously thus creating enough money to build more health centres, infrastructure and fund education. In 1970, the first development plan started to cover a five-year period up to 1974 and since then, seven more plans have been implemented until 2010. The main objective of these plans is to develop the economy and well-being of the country. The objectives outlined in the first plan provided the private sector with a greater role in economic development. In order to achieve this, the government came up with a five-year development plan that would help organise and utilise the resources of a given country and reduce the level of dependency on oil.

The five-year development plan focuses greatly on the private sector where they have received much promotion from other sectors. The most common feature in these plans is the fact that they have adopted a free market to increase the efficiency and growth of the private sector. According to Ramady and Saeed (2007), in order to achieve economic diversification, the KSA chose to encourage decentralisation, private sectors as well as market-based economic activities. This took the form of three approaches:

1. Attainment of the World Trade Organisation membership
2. Privatisation of the central government services
3. Facilitating of technological transfer in relation to the domestic economic stimulus by promotion of the FDI

Following the development of the above approaches, the Kingdom used the mechanism of promoting privatisation and investment in them. The Kingdom diverted the focus to the FDI as an appropriate mechanism that could drive economic development and diversification through its anticipated contribution in the manufacturing sectors and many more.

The first three plans shared similar objectives and they were formed at a time when the oil revenues had increased tremendously. The KSA's Ministry of Planning, (2006), suggested that the first three plans (1970 to 1984) were implemented to enhance diversification of the economy, infrastructure, and also develop the human resource as well as the private sector to help boost the economy. During this period, considerable government spending was involved and the establishment of a funding program to finance the projects in the agricultural and industrial sector.

The remaining four development plans took place between 1985 and 2005. During this period, the KSA faced some serious financial difficulties that were caused by instability in the oil market decreasing oil revenues. According to Saudi's Ministry of Planning (2006), the decrease in the oil prices resulted in a decrease in national income. However, the KSA managed to overcome this predicament by diverting the focus towards reducing government spending.

Over the past four decades, the private sector has grown 50 times more in the private sector over the period 1970 to 2010. Despite this growth, the economy of the KSA is still dominated by revenues from oil reserves but still, the GDP fell from 33 percent in 1970 to 28 percent in 2010 (SAMA, 2012). The strong increase in the FDI has led to the expansion of production and investment activities in the private sector. The development plans have made a considerable difference in improving the business culture and the Saudi national economy. The plans have aided the government to undertake effective decisions related to resource distribution and utilisation. Below is a table showing outlining the first eight development plans.

Table 5-1: First Eight Development Plans

Plan	A.H.	A.D.	Focus
First Development Plan	1390 – 1395	1970-1975	Infrastructure and government services and utilities
Second Development Plan	1395 – 1400	1975 - 1980	Infrastructure and addressed the financial and administrative framework for private sector development
Third Development Plan	1400 – 1405	1980 - 1985	Efficiency, and promoted regional development
Fourth Development Plan	1405 – 1410	1985 - 1990	Diversification of the economy and macroeconomic management and the focus on Saudisation
Fifth Development Plan	1410 – 1415	1990 - 1995	Improve the technical base of many sectors
Sixth Development Plan	1415 – 1420	1995 - 2000	The role of the private sector in diversifying the economic base, promoted economic efficiency in both public and private sectors, and emphasized overall human resources development
Seventh Development Plan	1420 - 1425	2000 - 2005	This plan starts to focus on a long-term perspective (year 2020)
Eighth Development Plan	1425 – 1430	2005 - 2010	A long-term perspective, looking to the year 2024, support of the private sector, improving their efficiency and continuing with administrative restructuring of government agencies and improving their efficiency
Ninth Development Plan	1431 / 32 - 1435 / 36	2010 - 2014	Combines the directive planning of government activity and indicative planning of private activity within a framework of developmental paths and the future vision defined by the long-term strategic planning.
Tenth Development Plan	1436 – 1440	2015 - 2019	Renewed emphasis on education and private sector development as the keys to economic diversification. In this regard, the plan represents the next step towards achieving the government's long-term vision for the country.

Source: Ministry of Planning. *Achievements of the Development Plans*. Kingdom of Saudi Arabia, Riyadh.

The most current development plan – the Tenth Development Plan, dated 1436-1440 A.H. and 2015-2019 A.D. addresses an emphasis on education and private sector development as it was clarified in the report by the Oxford Business Group (2015). The report further showed, “the first five years of the 10th Development Plan marks the start of the 15-year transformation of the Saudi economy into a knowledge economy”. Moreover, it was reported that by using this

development to focus on fiscal and monetary policies the intention is to “build fiscal stability, stimulate economic growth and support social welfare”. Nonetheless, The KSA paid considerable attention toward the private sector. The developmental plans expanded from 1970 until 2019 were directed to industrial sectors. Therefore, the government was required to create an appropriate environment to facilitate the role of private sector organisations. Hence, policies were developed to reflect an improvement in the government expenditures, increasing the government’s non-oil reserves, specialised investment banks and prompting existing banks to expand financing for employment-creating activities, restructuring subsidy programmes with a view towards greater efficiency and efficacy, and boosting the personal savings rate by creating new channels to attract small-scale savers (Oxford Business Group, 2015).

In the knowledge sector, the focus is on the underpinning of economic diversification to a knowledge-based economy and society. Specifically, “greater utilisation of the results of scientific research in addressing socio-economic issues raising the knowledge content of goods and services produced in the Kingdom” (Oxford Business Group, 2015, p.75). Approximately 50% of the goals in the Tenth Development Plan address education demonstrating the commitment to change the focus toward a strong knowledge diversification.

Additionally, the Kingdom wishes to encourage companies to establish and enter the Saudi market by streamlining the procedures for entry and protecting creditors with new bankruptcy regulations. Focus on building interest in investing in the KSA as companies that can enjoy the benefits of ‘economies of scale’ and investing in research and development to support their knowledge goals is critical to the success of the development plan. An effort to resolve dispute settlements, enforce rulings, and adherence to contracts are another arm of the changes to improve the desirability to invest in the Kingdom. Further the Kingdom wants to encourage small and medium-sized enterprises (SMEs) to merge so as to boost their efficiency and competitiveness (Oxford Business Group, 2015).

Another key point is the focus on labour productivity by providing education, training, positive work ethic, work with technological developments, developing labour market mechanisms, regulations, wage policies to facilitate movement of labour between companies and establishments in both public and private sectors. This is considered the Saudisation of the labour force (Oxford Business Group, 2015).

Research has demonstrated that in regards to the KSA's development plans, there is a logical causality between the oil and non-oil sectors with the GDP in the KSA (Alkathlan and Tarique, 2009, p.2). The study also determined the "increase in government expenditure would affect the share of the other variables in the economic growth in the KSA. It was strongly suggested that the Kingdom needed to change strategies to strengthen the private sector, which is the non-oil sector to improve the effectiveness of the Saudi economy (Alkathlan and Tarique, 2009, p.2).

The Tenth Development Plan appears to have taken this approach to heart and changed the emphasis of the development plans to encompass a great deal of education, knowledge, and private sector concerns. What this provides the KSA with, is a long term plan of action attempting to build the future while addressing present concerns. Children today learning skills and techniques to improve the knowledge sector tomorrow is an important investment in the KSA. This will encourage long term success in diversity in the Saudi economy which is necessary to protect their future. The United Nations Development Programme addressed the issues of the KSA in regards to planning for changes in the future specifically in their development plans. One recommendation that appears to have been implemented in the Tenth Development Plan is to focus on those facing poverty in the country by developing "pro-poor" policies to reduce poverty and reduce or eliminate income inequality (Al-Rushald, 2010, p. 17). Again, in combination with the knowledge sector and education goals, many of these issues are addressed and while they will take many years to see the success, it is an investment that is arguably worth waiting to see.

5.3 FDI in the KSA

In the recent few decades, the KSA has experienced a substantial expansion in the FDI inflows. This section will give a detailed report on the current trends involved in the world's FDI inflows touching on the MENA region, but more focus will be directed towards the KSA's FDI inflows.

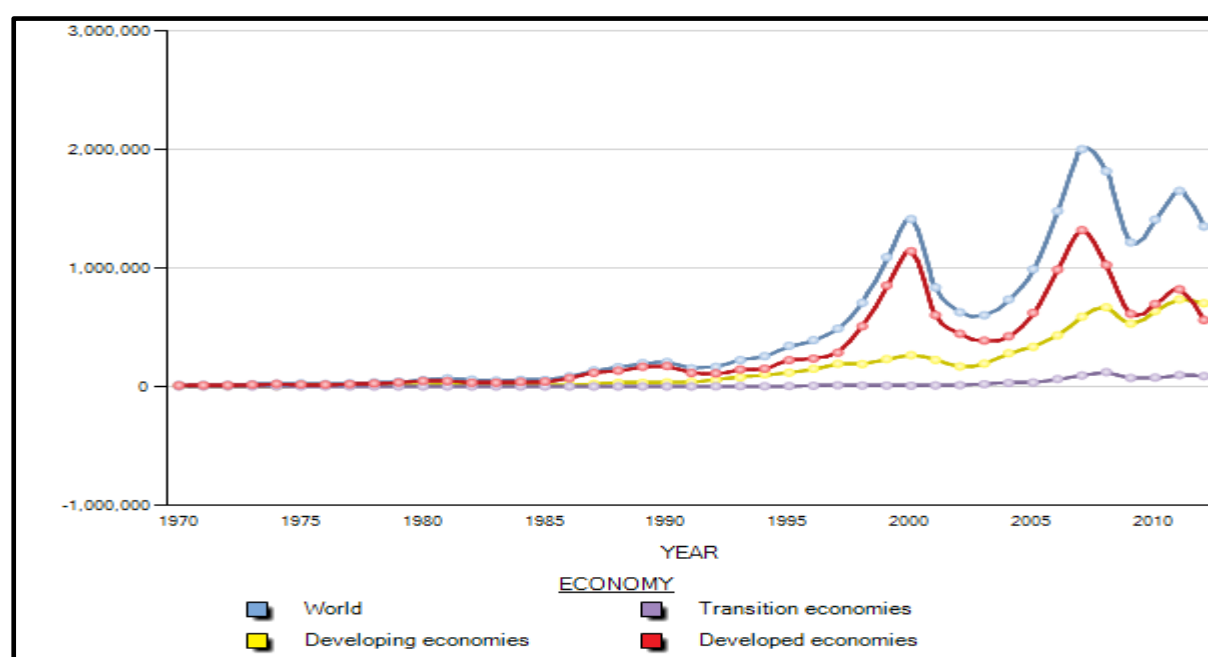
5.3.1 FDI Inflows in the World

According to Hosseini (2005), international production that involves FDI represents a very small share of the entire business. Some of the major restrictions that were imposed on direct

investment include the economic and political instability as well as economic, cultural and political differences that exist among countries. Before the Second World War, FDI was considered a vital investment venture, but after the War, there was a major change in international business including technological systems development and political and economic stability (Jones and Wren, 2006).

With such improvement in the business environment worldwide, the FDI inflows increased substantially between the periods of 1970 to 2012. Specifically, a large increase in FDI was recorded in 1970 with an average annual flows of \$19bn; however, there was a fluctuation between 1977 and 1985 but at a slightly lower level after which they started to rise again.

Figure 5-2: FDI Inflows Annually Between 1970-2012 (US\$, Millions)



Source: UNCTAD (2013)

According to Figure 5.2 above, FDI reached a peak of \$1,401 billion in 2000. However, what followed was a decrease to \$566bn in 2003, before rising towards the end of year 2007. UNCTAD World Investment Report (2015) provided a table of ‘selected indicators of FDI and international production, 2014 and selected years’ that gives one insight into what other nations find as critical to the success of FDI. More importantly, this table demonstrates the increases and decreases over the years in a variety of categories. The table identified the following

components: FDI inflows, FDI outflows, FDI inward stock, FDI outward stock, Income in inward FDI, Income on outward FDI, Cross-border M&As, Sales of foreign affiliates, Value-added (product) of foreign affiliates, Total assets of foreign affiliates, Exports of foreign affiliates, Employment by foreign affiliates (UNCTAD, 2015). The numbers are listed below in Figure 5.3 and demonstrate the changes but the importance of this table is the ability to provide one with a placement of where the Kingdom is compared to the information provided. As the economy continues to remain uncertain, it is critical to understand the increase of 7.6 % is promising but is still under the pre-crisis average seen in the years between 2005-2007 (UNCTAD, 2015).

Figure 5-3: Selected Indicators of FDI and International Production.

Item	Value at current prices (Billions of dollars)				
	1990	2005–2007 (pre-crisis average)	2012	2013	2014
FDI inflows	205	1 397	1 403	1 467	1 228
FDI outflows	244	1 423	1 284	1 306	1 354
FDI inward stock	2 198	13 894	22 073	26 035	26 039
FDI outward stock	2 254	14 883	22 527	25 975	25 875
Income on inward FDI ^a	82	1 024	1 467	1 517	1 575
Rate of return on inward FDI ^a	4.4	7.6	7.0	6.1	6.4
Income on outward FDI ^a	128	1 105	1 445	1 453	1 486
Rate of return on outward FDI ^a	5.9	7.6	6.6	5.8	5.9
Cross-border M&As	98	729	328	313	399
Sales of foreign affiliates	4 723	21 469	31 687	33 775 ^c	36 356 ^c
Value-added (product) of foreign affiliates	881	4 878	7 105	7 562 ^c	7 882 ^c
Total assets of foreign affiliates	3 893	42 179	88 536	95 230 ^c	102 040 ^c
Exports of foreign affiliates	1 444	4 976	7 469	7 688 ^d	7 803 ^d
Employment by foreign affiliates (thousands)	20 625	53 306	69 359	71 297 ^c	75 075 ^c
Memorandum					
GDP ^a	22 327	51 799	73 457	75 453	77 283
Gross fixed capital formation ^a	5 592	12 219	17 650	18 279	18 784
Royalties and licence fee receipts	31	172	277	298	310
Exports of goods and services ^a	4 332	14 927	22 407	23 063	23 409

Source: UNCTAD (2015)

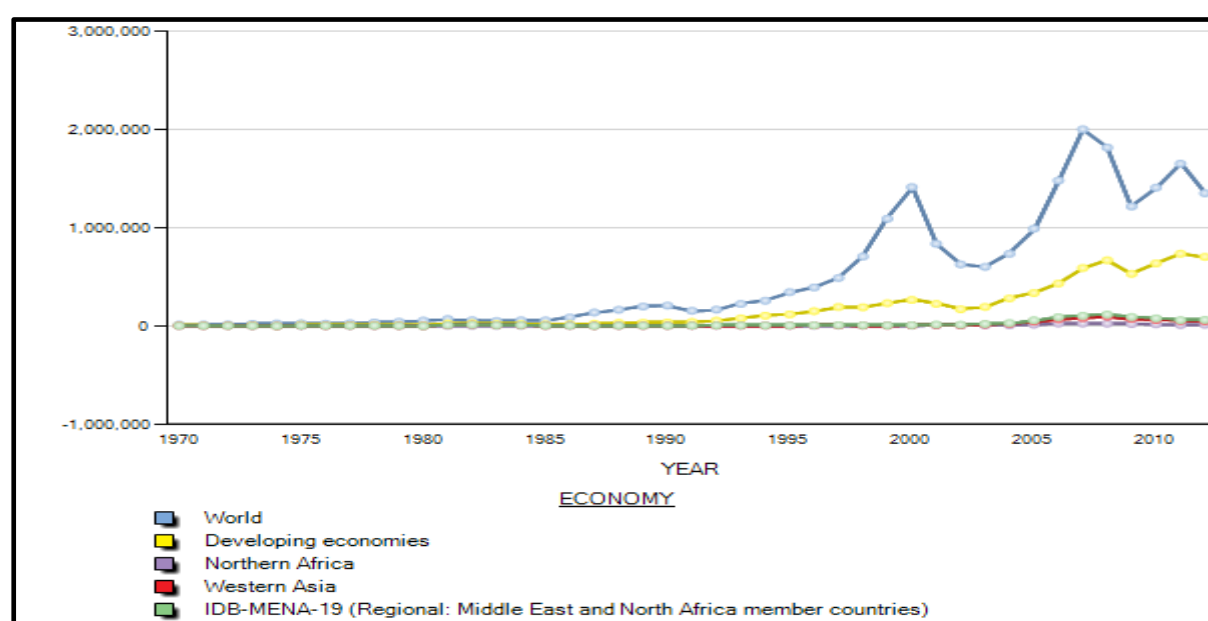
5.3.2 FDI Inflows to the MENA Region.

The World Investment Report (UNCTA, 2006) indicates that MENA is divided into two regions. These are as follow: (a) West Asia and (b) North Africa. These regions are then subdivided into the following sub-groups such as (a) West Asia which includes Cyprus, Iraq, Kuwait, Qatar, Iran, Bahrain, Syrian Arab Republic, Oman, Jordan, Lebanon, Yemen, Palestinian territories, The KSA, Turkey, and United Arab Emirates and (b) North Africa which includes Algeria, Morocco, Tunisia, Egypt, Libyan Arab Jamahiriya, and Sudan.

According to the World Bank (2007), MENA includes Israel but UNCTAD (2006) describes it as a developed country. In this report, the definition given by UNCTAD (2006) would be preferred. Even though the MENA nations rely largely on oil, they are characterised by a high population, unemployment, underdeveloped institutions, low integration levels between financial and capital markets, and a weak economy (Hisarciklilar, Kayam, and Kayalica, 2006). These factors vary in different countries which explains why the FDI inflow fluctuates. To ensure that there is fair competition and attractiveness, MENA countries have implemented different reforms. According to a report by the World Bank (2007), trade agreements have since been modified though they still have significant impact on the economic world. Furthermore, the World Bank (2007) reports that the business aspect of MENA countries has seen great improvement with the objective of increasing FDI through privatisation and liberalisation of the economies.

Since 1990, FDI inflows especially towards the MENA region have grown substantially from \$207 billion to approximately \$1.4 trillion in the year 2013 (Hisarciklilar, Kayam, and Kayalica, 2006). The increase can be attributed to the globalisation that is taking place in the world today. Starting in 1990, the MENA regions indicated an increase from \$5.8 million to \$52 million in 2013 as shown in figure 5.4. Still, this increase was relatively small when compared to the overall increase that took place globally.

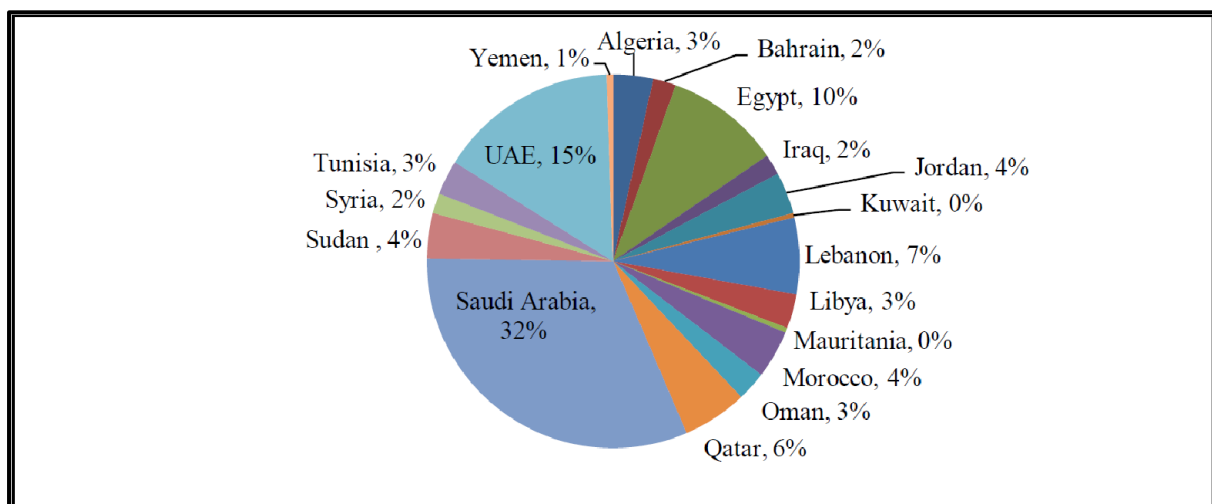
Figure 5-4: FDI Inflows for MENA between 1970-2012 (US\$ Millions)



Source: UNCTAD (2013)

In the MENA region, countries involved in importation of oil showed increased FDI inflows in terms of GDP with a total of 4.6 percent, 8.4 percent, and 5.4 percent as compared to 0.9 percent, 4.7 percent, and 3.1 percent in the years 2000, 2005, and 2009 respectively (UNCTAD, 2012) . In the economic period between 2000 and 2013, FDI inflows were recorded in some countries such as the KSA (32 percent), United Arab Emirates (15 percent), and Egypt (10 percent) (UNCTAD, 2012). Other countries such as Kuwait, Djibouti, and Mauritania received the lowest FDI inflows averaging less than 1% as shown by Figure 5.5 below (UNCTAD, 2012). The reason behind the FDI low levels within the MENA region was due to the unavailability of sufficient skills, lack of enough knowledge on the existing relationship between FDI and economic growth, as well as inadequate legal know how on the principles and procedures that were applied in the regions involved in FDI.

Figure 5-5: FDI Inflows to the MENA Countries (2012)



Source: UNCTAD (2012)

Following the massive economic crisis that happened in 2008, the economy was affected by the deteriorating effect on the FDI. Before then, the MENA region had a bigger share of FDI (FDI) globally. For instance, looking at Figure 5.4, one sees in 2000 the levels of FDI inflows were high and continued up until it began to decline towards the end of this period. This was caused by the fact that there was no support offered to the MENA region regarding its economic and political conditions.

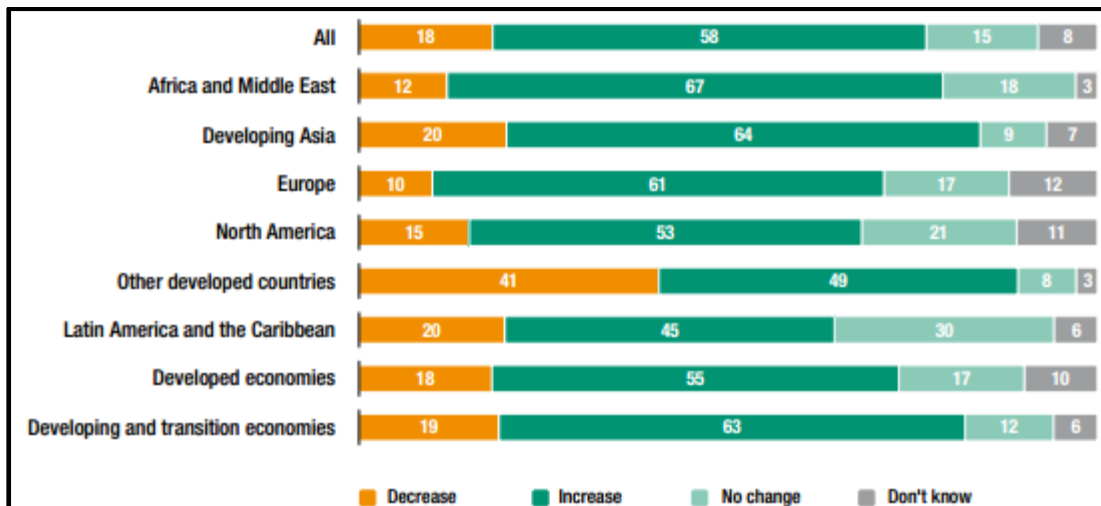
According to the literature done on the FDI, there is no clear report showing its decline after 2011, but researchers assume that the reason behind its decrease is due to political instability that was present at the time. This included the quality of service delivery in the government institutions rather than the concept of democratic accountability that were applied. The political instability that was experienced in early 2000 is said to be the main reason for the decrease of FDI especially in the MENA region. The World Bank (2013), states investments on the climate and institutions need to be strengthened in order to manage all the incoming resources. More focus needs directing towards macroeconomic and political stability where there is protection of legal and human rights as well as the establishment and implementation of policies that are transparent to protect the nation to help increase FDI.

The report indicates that for the MENA regions to grow, there must be an establishment of the political reforms. This structure should not include any long-term challenges, uneven regulations, costly subsidies, favouritism for the privileged member, labour, inadequate provision of electricity, goods as well as financially poor functioning markets. These issues may lead to a decrease in economic growth and also bring about high rates of unemployment in society.

Figure 5.6 below demonstrates what UNCTAD (2015, p. 38) predicts as activity level from 2015, to 2017 and Africa and Middle East can expect significant increases. While the source lacks detail about which countries can see that growth, the overall increase is encouraging. The expectation is for approximately 67% increase for global FDI activity (UNCTAD, 2015, p. 38).

Figure 5-6: Expectations for Global FDI Activity Level between 2015- 2017.

(Per cent of executives based in each region)

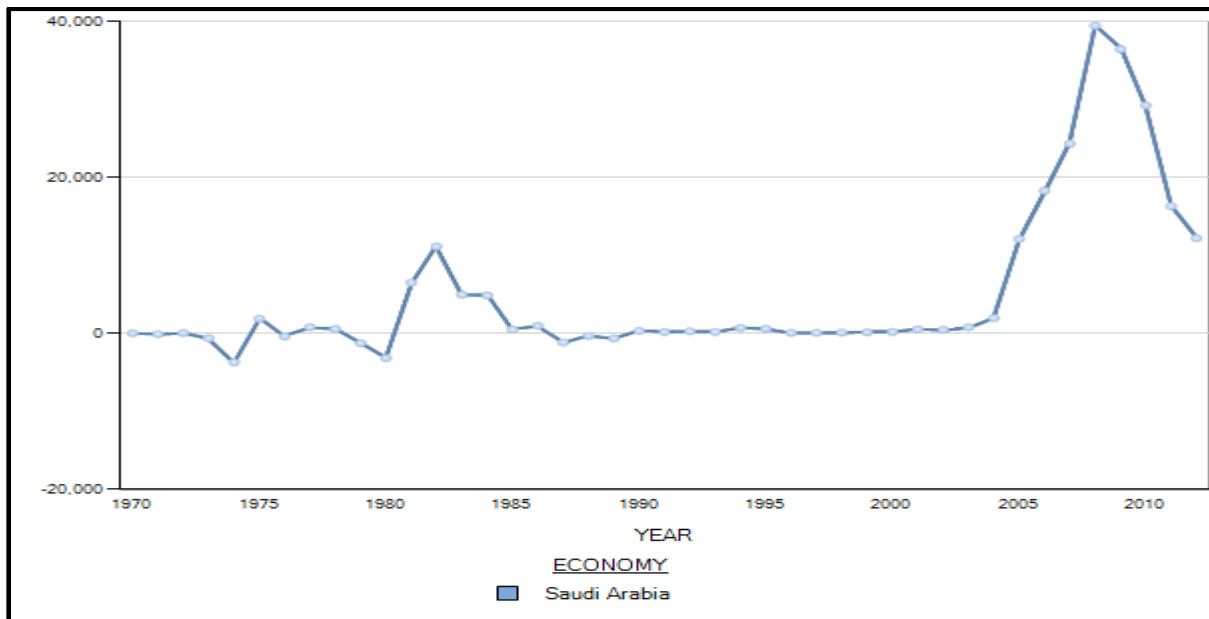


Source: UNCTAD (2015)

5.3.3 FDI Inflows and Development into the KSA

The KSA's economy is considered the largest among the Arab countries when it comes to FDI. In fact, 34% of the total GDP in the KSA, which was equivalent to \$187 billion, was the total value of FDI back in 2012 (UNCTAD, 2013, p. 1). According to Figure 5.7 below, the last decade recorded an increase with \$251 million inflows for the period 1990 to 1999 (UNCTAD, 2013). Between 2000 and 2004, the FDI increased to \$772 million and later to \$24 billion during the period 2005-2011 (UNCTAD, 2013).

Figure 5-7: FDI inflows to The KSA between 1970-2012 (US\$ Millions)

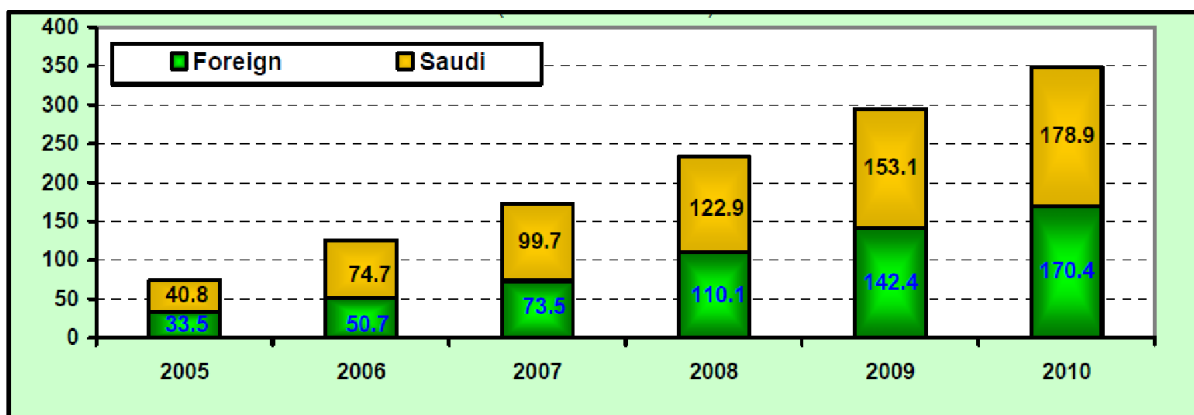


Source: UNCTAD (2013).

In recent years, a significant growth in the FDI inflow was witnessed. This can be attributed to the joint venture that took place between the largest oil organisation, Saudi Aramco, with the International Energy Organisation. The joint venture was shared equally between Saudi Aramco and Sumitomo Chemical Co. of Japan and they named the corporation the Petrochemical Company (PETRO Rabigh) and Rabigh Refining (UNCTAD, 2013). The main reason behind this was to form the Rabigh Refinery and make it a fully integrated refining plant and a petrochemical centre. By 2008, this project was estimated to have cost US\$ 10 billion to complete (UNCTAD, 2013). Other ventures such as ConocoPhillips (USA) and Total (France) have signed a deal with Saudi Aramco to form two export refinery centres. Plans are underway to construct additional production companies dealing with global chemicals and plastics. On matters involving gas exploration, Saudi Aramco has signed a venture agreement with ENI and Repsol YPF. Other companies such as Total, Shell, Sinopec, and Lukoil, have expressed interest in this joint venture contract and signed to work with Saudi Aramco (UNCTAD, 2013). With such joint ventures, the FDI inflow in the KSA from Arab countries and international organisations are expected to increase dramatically. The KSA plans to be amongst the top ten world FDI inflow destinations by the year 2020. To achieve this, investing in the gas service sector, oil extraction, and mining is necessary in order to garner more FDI inflows. To the south of the KSA, several organisations from Russia, China, Italy and Netherlands have been doing much exploration to improve foreign investment. Saudi Aramco being a government owned institution has increased more investment opportunities in different sectors such as gas and

services since its focus on making more profits. As illustrated in figure 5.8 below, the energy sector, petrochemical projects, as well as the energy-intensive manufacturing has received many offers to be joint ventures for projects that bring in a lot of FDI inflows.

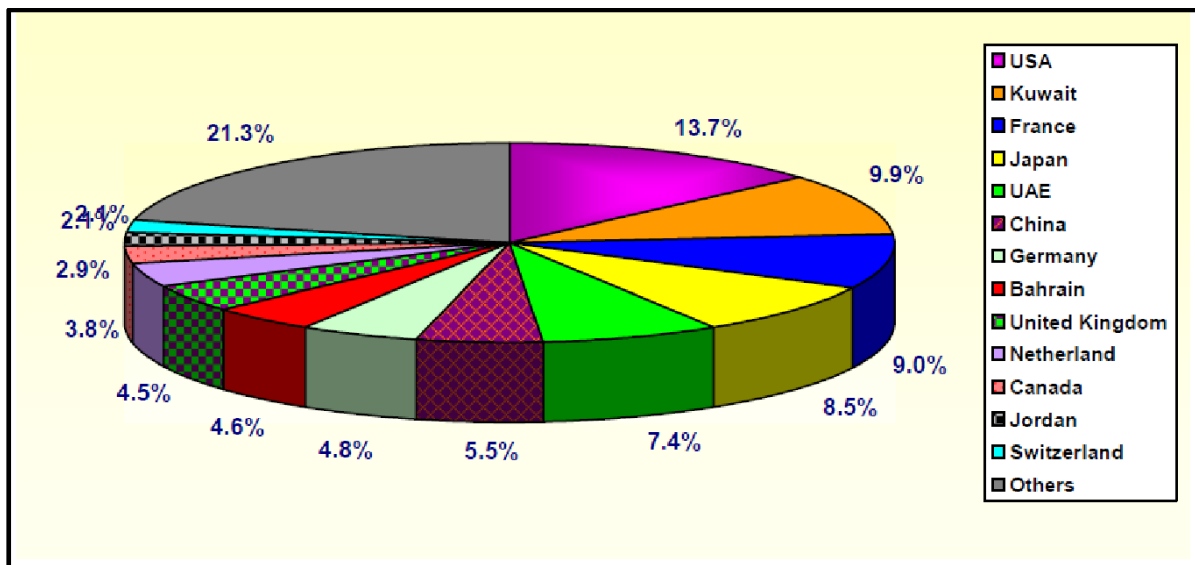
Figure 5-8: FDI and Joint Venture Stocks between 2005-2010 (US\$ Billions):



Source: SAGIA (2010)

The national economy in the KSA is improving which is the reason why expectations are that the FDI inflows will stem from different sectors other than in oil and petrochemical. Approximately 17.5 percent of the total FDI inflows comes from building contracts and they are increasing tremendously as new infrastructure continues to emerge. For instance, SAGIA has identified prominent individual locations such as King Abdullah Economic City, Jazan Economic Cite, Knowledge Economic City, and Prince Abdul Aziz bin Mousaed Economic City that contributed approximately \$150 billion of the KSA's total GDP towards improving the economy (SAGIA, 2010). Some of the main inflows in the FDI building contracts come from Economic Cities and Greenfields. By the year 2009, there were about 5,670 companies that can trace their establishment following the FDI and Greenfield Company as one of the key players formed 800 of those (SAGIA, 2010). About 29 percent of the total FDI inflow stock comes from West Asian countries; 27 percent comes from the European Union, 17 percent from North America and 10 percent is from South, East, and Southeast Asia (SAGIA, 2010). From figure 5.9 below, countries such as Kuwait, United States, Japan, France, and the United Arab Emirates are the main players.

Figure 5-9: FDI Stock by Source in 2010 (Total US\$ 170.4 Billion)



Source: SAGIA (2010)

From the figure above, it is evident that in 2011 the inwards inflow from FDI was approximately \$16.4 billion that came from Arabian countries which represented 38.2 percent total share of the overall Arab inward FDI (UNCTAD, 2011). A total value of \$47.8 billion was achieved in a period of 17 years which represent a 27 percent share of the overall Arab FDI inflows (UNCTAD, 2011).

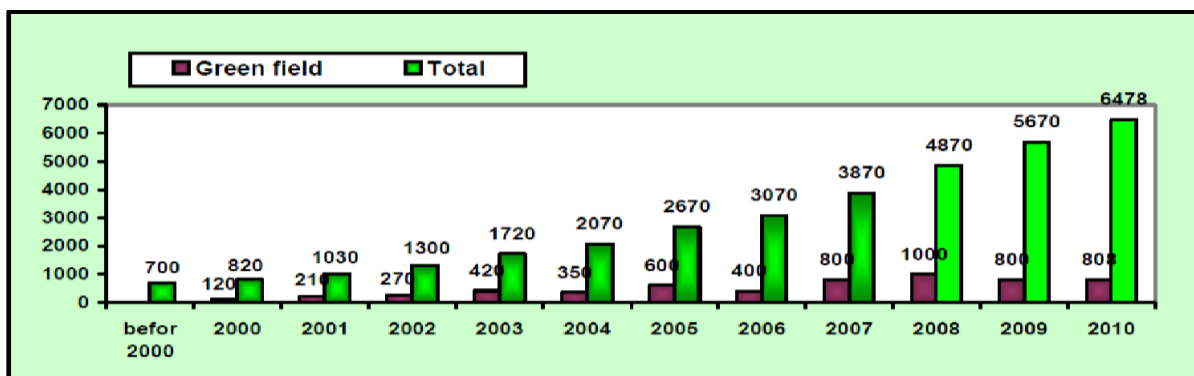
SAGIA has provided more support to the KSA's economy. The organisation originated in 2000 with an objective of assisting the investors with information required to facilitate more investment opportunities, especially in the energy and transportation sectors. As a result, a significant number of investors developed interest in the nation, making the Saudi economy the largest in the Middle East and gain recognition as one of the top 20 most developed economies in the world (UNCTAD, 2013).

According to Al Ayed (2010), the FDI inflows had exceeded to a more than \$ 35 billion in 2008, which contributed to the improvement of the Saudi's investment climate. This represented a 2.2 percent of the world's total amount of \$1.7 trillion (Ramady, 2010). All these improvements are attributed to the joint ventures formed and signed with the foreign investors who have a huge influence into the global network with easier access to the international market (Al Ayed, 2010). Ramady (2010), suggests that FDI inflows can be brought about by mergers and acquisitions of the major international institutions rather than new developmental projects

or the famous joint ventures. As a result of the existing economic stability in the KSA, it has been able to achieve high levels of FDI inflows as shown by Roberts and Almahmood (2009) with the help of various tests. However, this inward inflow may not necessarily affect the growth of a country.

The international mergers and acquisitions are mostly affected by the tightening of the credit market. For this reason, there was a decrease in FDI inflows in the KSA as well as in other GCC nations that were involved. In a short period of time, the government resources and the economic liberalisation program have facilitated the start of several investment projects. Projects such as power, education, transportation, housing, and water have received a substantial boost in the KSA in the past five years and this is projected to continue in the next five years. To facilitate this, approximately \$400 billion has been invested (Saudi Economic Report, 2009). The figure below shows that there were about 6478 organisations formed in 2010 which means that there were nine times more than those formed before 2000. By early 2008, these companies had increased to 1000 organisations but they dropped to 808 by 2010.

Figure 5-10: FDI No. of Companies and Establishments between 2000-2010:



Source: SAGIA (2010)

According to a report written by (UNCTAD) in November 2005, the WTO assisted the KSA to get more inward FDI inflows. Other aspects such as liberalisation and transparency also contributed towards the creation of a beneficial investment environment.

5.3.4 Conclusion

The literature discussed above clearly demonstrates the Saudi economy's progress in the last four decades in order to attract FDI where much growth has taken place in the petroleum sector. However, depending on a single commodity can expose a country to external risks and threats. To ensure that this does not happen, SAGIA and the NCC were created, as well as legislation such as the Foreign Investment Act in 2000, with an edict to attract greater levels of foreign investors and boost FDI. To facilitate this, King Abdullah bin Abdulaziz implemented some important changes in the way business was conducted. He was involved in monitoring and supervising the progress being made towards reforming the investment environment for both the local and foreign investors. SAGIA has done a lot to align the private sector as well as other government ministries by deciding the best measures that can be taken to enhance more benefits (SAGIA, 2010).

In line with the information discussed above, the present study shows that the rules and procedures applied have worked towards increasing the FDI inflows in the country. For instance, for the period between 2000 to 2012, inward FDI inflows increased by a significant figure of \$17.5 billion in 2000 to \$200 billion in 2012. Nonetheless, it is evident that the KSA still relies heavily on oil revenues to run its economy. The process taken to implement mega projects is quite slow and happens gradually as the Saudi government has initiated the development of non-oil revenue resources. While SAGIA is in the process of working hard towards generating an effective FDI, much still has to be done and as discussed above, the process is gradual with impending challenges. A number of major strategies put in place in the KSA are to attract more FDI inflows using the replication of processes adopted by other developing economies (UNCTAD, 2011).

5.4 Institutions in the KSA

5.4.1 The Foundation of the Saudi Society and Institutions: Islam

The Saudi Arabian society is founded based on Islam which is both a religion and also a guideline that teaches Muslims the way of life. The Muslim Prophet (Prophet Muhammad) who is referred to in the Quran and prophetic traditions (the Sunnah) provides the foundation of the constitution of the country. The speculated laws that are laid down by the country are based on the teachings of Allah and the Prophet Muhammad (peace be upon him).

The ruling King Fahd Bin Abdulaziz, who served with the responsibility of maintaining the two Holy Mosques, believed that the Kingdom is successful when the principals of Islam are adhered to by the Saudi government. As of March, 1992 some laws were updated as follows:

- The Monotheism Creed: This one states that the people need to worship and recognise Allah as the most powerful one.
- The Shariah or Islamic Law: This defines Shariah as the basic law that protects the rights of all other individuals and builds strong relationships among them as well as controlling the activities in society so as to maintain law and order.
- Holy Mosques: According to the tenets of Islam, the Holy Mosques should remain pure and the individuals managing it must portray it as a holy place in the name of Allah the Almighty. Any activities that may act against Umrah, Hajj, or worshipping of Allah should be eliminated.
- The Islamic Call (Da'wah): In Islamic law, the Islamic call must be advocated for and spread because it is the most important task of all the Islamic nations.
- Faith Unity: Unity and faith were supposed to come first in everything including politics, the society and the entire geography.
- The Environment of Piety: This kind of environment needs to be portrayed in a place where there is no evil or corruption taking place. The propagation and virtue committee was responsible for taking charge of such an issue.
- Growth and Innovation: According to the teaching of Islam, people's lives must be enhanced and so their interests should be satisfied.
- Shura (Islamic consultation): Such form of consultation is advocated by the religion as one of the main characteristics of a true believer and anyone who uses it is praised.
- Defence: The religion indicates there must be defence for the citizens, nation and most importantly, for the Holy shrines (Royal Decree No. (M/1)).

The constitution of the KSA is based on the above mentioned points. Allah selected the KSA as the destination where the last prophet and messenger (Muhammad Bin Abdullah) would have their final revelation. In this manner, the Islamic religion was spread all over the world with the aim of delivering God's message to the entire nation (Al Rasheed, 2002 and Amin, 1983).

The KSA is known as the centre of the Islamic world due to Makkah and Madinah, which are the locations of the Holy Cities, pivotal to the Muslim faith. This explains the reason why most Muslims from all over the world are spiritually and emotionally attached to this place. It follows the Islamic Code of Conduct including all the activities which has enabled it to achieve transactions based on Islamic principles.

The KSA describes itself as the Islamic centre with the objective of functioning according to Islamic Shariah and applying all the rules as per the law. The KSA has been built on the basis of Islam and Shariah teachings. Similarly, the five-year development plans that were discussed earlier have been written in accordance with the Islamic values that are clearly defined in the Shariah. For this reason, the Saudi government's development and progress are closely linked with and reflect (as much as possible) Islamic principles.

In Saudi, the process of policy making by the government is based on the principles of the Quran and Sunnah (prophetic traditions). The kingdom is based on a strong Islamic foundation therefore, once a decision has been made, the people must refer to the Islamic principles that offer guidance for success. Below are some of the major activities that are in accordance with the Islamic teachings.

The Muslim community living in the KSA pray five times a day since Salah is the second pillar in the Islamic culture. For those who fail to pray, the Muslim scholars within the Kingdom consider those individuals as being non-Muslims. Adhan, which is a call to prayer, is made to summon all the Muslims to the mosque to pray. Once Adhan time enters, the Muslims are given fifteen to twenty minutes to pray which means that all activities or offices are closed down during this time. The office hours are reduced to either six or eight hours a day during the fasting month of Ramadan. Similarly, the official hours of opening are slightly delayed for about an hour or two to ensure that all the Muslims offer their late night prayers with no rush.

During this time, they are expected to read the Quran more often during Ramadan and at the same time entertain their guests and relatives. As a sign of respect towards the Muslim religion, all the people are asked to refrain from eating in public during Ramadan. This means abstaining from eating from dawn to sunset and for those who have restaurants, they are closed. Every year, there are two important holidays for Muslims; The Eid AI-Fitr (to celebrate the end of Ramadan) and the Eid AI-Adha (to honour the Hajj period). These holidays start after the commencement of congregational prayers. After the festivities are over; friends, neighbours and relatives come together to enjoy the festival. Assalaamu alaikum (Peace be unto you) is a form of greeting that is used by a certain person towards a certain group or another individual. The individual or group needs to reply as follows, 'Wa alaikum as- Salaam wa Rahmatullah' ("And to you be the Peace and Blessings of Allah").

5.4.2 Political System in the KSA

Saudi's political economy system is divided into two parts. The first part covers the economic, historical, and political background and the second part discusses the Saudi political economy.

5.4.2.1 Historical Background

In early 1932, the Kingdom of Saudi Arabia (KSA) was regarded as a nation where there was an application of the Islamic code in all affairs. From the mid-18th century, the state has been described as the third one to have been established under the Al-Saud family. The first Saudi State was formed in 1744 as a result of tribal chieftain by Muhammad ibn Saud in the Najd plateau. Muhammad ibn Abdul-Wahhab formed an alliance with the tribal chieftain. He focused on the Islamic teachings and preaching and provided the support needed in society. Muhammad ibn Saud was assisted by Ibn Abdul-Wahhab as the people's ruler. For this reason, Ad-Dar'iyah was referred to as Wahhabi doctrine throughout the entire Arabia.

After the alliance between Muhammad ibn Saud and Ibn Abdul-Wahhab, the Hejaz province was conquered in 1803. This included several cities such as Makkah and Medina located in the west of the peninsula. According to Dahlan, (2010), the Ottoman Empire which ruled the peninsula at that time had lost control of the Kingdom. Later, Muhammad Ali, the Egyptian

ruler by then, was asked by the Ottomans to drive away the Saudis from Hejaz. For this reason, since 1818, it was easier for Muhammad Ali's army to defeat the Saudi's state and its capital.

In the presence of Ottoman, the Al-Saud family was involved in various activities for the re-establishment of the state in 1824 (Al Rasheed, 2002). The Najd plateau for instance was reclaimed by Turki bin Abdullah Al-Saud after evicting Muhammad Ali's army back in 1830. Within the cultural setting of Al-Saud, a conflict arose in 1860s where by Al-Rashid acquired Riyadh and chased out the leaders of Al-Saud (Al Rasheed, 2002). These leaders escaped to Kuwait. Between 1902 and 1932, military campaigns took place sponsored by Ibn Saud (Al Rasheed, 2002). The participation of the Wahhabi doctrine and Al-Saud in these campaigns united all the tribes (Kechichian, 2001).

Before the discovery of oil reserves was used as a source of revenue, the population was subjected to taxes and revenues from Hajj sustaining the activities taking place in the country. The economy was fragmented where the Hejaz earned more revenues through Hajj pilgrims while others were earned through crops. Oil, after its discovery and production in the 1940s, became the main stay of the economy.

After the discovery of oils fields, the external powers became more interested in the KSA. Britain was among the first countries to sign several contracts which made it the dominant party, but in 1933 concessions to the American oil company became dominant. As a result, a partnership between the Arabian American Oil Company (ARAMCO) was developed and later changed to Saudi ARAMCO in 1980.

5.4.2.2 Perceptions of Political Economy

According to research conducted in the KSA, there is a great need for religion in the KSA with society dynamics having been boosted by proceeds from oil. These important factors have been highlighted in most of the studies done in the KSA. As illustrated by Huyette (1985), the KSA came from a primitive age as a result of several factors such as its uniqueness, and different cultures that can be helpful in understanding various dynamics of the country. Huyette (1985) illustrates that both cultural and political standards in the KSA can attribute their success to the

Islamic culture. Further, he indicates that the Islamic religion is rather influential in the KSA as compared to other regions. Hueyette (1985) explained that Kingdom finds its identity by the significant reviews and standards of the people in it.

At some point, the approach by Hueyette (1985) was similar to that of Fandy's theory that was common in studies done on the Middle East. Fandy (1999) indicated that the theory of modernisation was greatly influential when it came to analysing the Arabic background where aspects such as tradition and novelty are different when it comes to universal development. Any attempts on the advancement in this theory showed that there was an improvement in innovation. Fandy (1999) indicates that various hurdles such as religious forces should be suppressed in the process of movement.

In 1980, during a research conducted on the political economy of Saudi, it was discovered that the Kingdom was culturally strong and believed in Islam. Similarly, there were imperfections in establishments and significant customisation was done to manage the concern of the public. According to Islam, religion is not troublesome to the development of a state. The Fandy theory has taken into consideration that religion is a problem towards new innovation. As per the Islamic view, religion is a philosophy; therefore, it has integrated the Saudi political system by concentrating on its validity and the tribal relationship.

The cultural approach had to be discussed and too much attention could be seen as a misrepresentation of the country. At times, this approach became ineffective and there was the likelihood of being exposed by its segregated aspects from the outside world. Some research such as that by Lackner (1978), believes that the KSA is not particularly suited for any kind of development. He describes it as an exceptional area because of the dominant culture. The main aspect is related to culture that does not allow for all women to be involved in the labour force. In the KSA, women who are involved in the Saudi labour market portray some mixed views. Lackner (1978) in his study observes that religion is being advocated for by Wahhabi advocates. Wahhabism was integrated into the new Kingdom's religious and political establishment, the idea of Wahhabi is formed on high following the basis of the rules and laws adopted to govern social affairs in the KSA. On the other hand, Wahhabist beliefs are an issue that remain controversial within the KSA and among outside observers (Blanchard, 2008).

According to Chaudhry (1997), the Kingdom possessed a good cultural background even before the oil explosion in the 1970s. The KSA was highly influenced by the activities of the foreigners that led to more development. For this reason, the economic agencies have since been developed privately (Chaudhry, 1997). Studies undertaken by Menoret, highlighted that Islamic sermons in Saudi's Kingdom were difficult to interpret as the religion could not be explained in any specific manner and it was seen to merge with the beliefs as described by Wahhabis. As recorded by most of the Islamic related movements, the nature of the administration seemed to deviate from the religious rules as a result of excessive materialism and pragmatism (Chaudhry, 1997).

More research on the KSA has shown that oil and religion have a strong impact on the economy of a country as discussed before. The social, political, and economic life of the KSA was much affected from 1938 by the oil journey leading to its successive rise in the 1970s. Practically, because of the big oil reserves, the Kingdom is seen as a 'rentier' economy as per the International Political Economy (IPE).

The theory of the 'rentier' comes from the thrifts that are ruled by outer rent. In general, the 'rentier' theory is described as one that is regularly obtained from external monetary rent but in a well-planned manner (Douglas, 1996). Mono-producers are known to follow the 'rentier' economies; however, in this case, it is used in the exportation of oil. Some attributes of economics arranged in a proper order can be described as 'rentier'. This means that the economy is governed by the rent and thus it must be an external rent. As such, only few of the economies are found in the process of rent creation (Douglas, 1996). Moreover, Wilson indicates that the KSA has been referred to as a 'rentier' economy because of the above characteristics (Wilson, 2004). Exports from oil is termed as the main source of income for Saudi's Kingdom. For this reason, the term, 'oil rents' was adapted. These are the outcomes of the outside factors and the government is seen as the major stakeholder of this rent. In this case, an insignificant level of population may be involved in several activities since the process of oil discovery and export is clearly outlined with less production and development recorded (Champion, 2003).

According to Krimly (1999), the term 'rentier' shows that the Saudis are more independent and more experienced. He discovered that the financial crisis that was caused by the oil economies

involved 'rentier' economies (Krimly, 1999). Revenues that come from oil proceeds have made the Kingdom a robust economy and thus created a stable political system all across the country. For example, the Gulf States stopped the collection of taxes since the returns produced by oil produced wealth (Heradstveit and Haveem, 2004).

Luciani (2016), the 'rentier' theorist indicated that the ultimate power being enjoyed by the KSA as well as other oil manufacturing states seems to be effective. The economic freedom and the political upkeep has been facilitated by the Kingdom since it is a 'rentier' state. Most of the private sector also emerged significantly through the development process of the Kingdom. This sector finally turned out to be an independent state. Business leaders in the KSA have strong links with the government although they have no idea of the credit that comes with this ultimate success due to their association with the government (Luciani, 2016).

Hertog (2010) posits that the KSA is facing a complex state-society as compared to the previously discussed theories of state control. The crisis experienced in the budget during the early 1980s and 1990s occurred due to the nature of the distributional system in the KSA (Hertog, 2010). It indicated that there were growing pressures to restructure the economic structures in Saudi. Nevertheless, the results did not reveal any form of political restructuring. Essentially, the uneven results showed either finished projects or those that were left untouched, which indicated the establishment of new interests (Hertog, 2006). However, much power was witnessed for most groups via this procedure. The 'rentier' state as shown by Krimly (1993), is a considerable independence being enjoyed by the KSA. According to Krimly (1993), much focus has been directed towards the inter-twining and inter-penetration between society and the state.

Accordingly, some opinions seem to be considerably justified in the political setup of the KSA. For instance, there are some factors that play a key role in growth rather than others, and yet still affect directly, for instance the customs, religion and resources from petroleum and the modernisation that contributed significantly to the growth of the KSA. However, the role of government with regards to decisions and policies is fully explained since these decisions were described by some Saudi authorities.

The Kingdom's financial and political setup can be understood by the insights of the political economy in Saudi. Hertog (2006) and Luciani (2010), had made crucial observations on the same. Luciani (2010), claimed that there is validity of the 'rentier' model and the growing influence of the private sector. Hertog (2008) on the other hand recommended the complications, diversified stakes as well as grant of veto power to various groups in this Kingdom. However, there were advanced propositions by Hertog on the grown-up 'rentier' model for the KSA.

Hertog (2006) indicated that the Kingdom's political economy is the head of its WTO agreement and the main purpose was to study its local and global links. He further illustrated this through various state businesses as well as the structure and their results in an article "Two-level negotiations in a fragmented system" (Hertog, 2008). The sector that involved factor-based patterns was analysed together with the emphasis made on free trade. Concurrently, he recognised several academic approaches such as: the decision-making process and mechanism of interest-aggregation. However, the approaches on economic matters as described by Hertog have more calculations in this Kingdom, while in Western democratic systems these tools are emphasised by most of the institutional approaches (Hertog, 2008).

In this context, the political picture of the Saudi economy may vary from Hertog's study in 2006. The local politics were likely to be strengthened in his previous analysis in which certain veto power was delegated to a few groups over different matters. The "two-level negotiations" study revealed failure of certain political forces in successfully accomplishing the key projects because of a massive division.

5.4.3 Recent Institutional and Administrative Reforms Related to FDI

The concept of economic reform was considerably uplifted within the development of financial changes. The 1980s and 1990s observed a record fiscal improvement in the developing countries according to Haggard (1995, p. 6). Naturally, the industrial vision derived the adopted reform type, through which free trade and an open market was observed. This trend of reform was not avoided. Moreover, in the mid-1990s, economic reform became an issue to which genuine attention was drawn.

For quick and viable fiscal growth, the private sector is playing a vital role in the Kingdom's economy. An uplift of the 'business climate' and upkeep of the FDI is crucial to increase the contribution of the private sector in the economy. The 1979 Foreign Investment Act was governing the FDI, which facilitated in the escalation of foreign stock along with the input of the private sector to the Kingdom's economy. Nevertheless, the FDI flows were depressed in the analysis of the 1979 Foreign Investment Act at the end of the 1990s.

This particular Act enabled a few Saudi firms to conduct joint ventures with their involvement along with excluding foreign shares from a few sectors (Khyeda, 2007). Also, the foreign investors were stopped to acquire a license unless it was supplemented by foreign technical proficiency. This scenario created formation of a new law in the year 2000 along with the review of the present law. Ultimately, SAGIA emerged through the KSA's Council of Ministers by approving the 2000 FDI Act under a Royal Decree. Generally, there were new transformations by the law that relaxed the deterring rules against foreign investment for free trade across the Kingdom.

5.4.3.1 Legal Framework for FDI: The 2000 Foreign Investment Act

SAGIA controlled the new law under the direction of the Supreme Economic Council. There were important changes in the law in relation to, FDI as there were few restrictions such as foreigners being unable to invest in the sectors reserved for the local and government investors, i.e. insurance and the electric power generation, telecommunications services, printing and publishing services, pipeline transmission services, the transmission and distribution of electrical power, hospital and health services and education services. These sectors remained open and foreign stockholders were able to freely invest, with the exception of areas given in a 'Negative List' designation that SAGIA compiled and the Supreme Economic Council ultimately approved under Article 3 of the new law (see, Appendix 1). This Negative List in the Act contained all the banned activities regarding foreign investment.

There are 15 sectors in the latest list of 2009, two from industrial sectors and 13 from service activities. The industrial zones include oil discovery, drilling and the production of military equipment, while the printing and publishing, real estate investment in the holy cities of Makkah and Almadinah and security services are included in the service sectors. Much effort

was afforded by the government to curtail the 'Negative List', by eliminating the subsequent objective (Khyeda, 2007, p. 80).

Second, foreign investors were allowed to participate in investment related activities as per the new law, containing investment licenses, which still need investments across the Kingdom. An 'investment' can enter through any mode and is considered as any local or external project for both shifting production and capital. The licenses appeared in two new shapes: foreign investors can have more than one license; and their processing was expedited. However, the old law contains a laborious, complex procedure for a licence. Thirty days were allocated to SAGIA as per Article 2 for a decision about an investment application (Appendix 1), and SAGIA is obliged to issue the required license, if it fails to decide within a stipulated time period. Many opportunities were brought through this change across the Kingdom.

Third, 100 percent possession of projects was granted to foreign companies according to Article 5 of the new law (Appendix 1). Also, a foreign investment is treated just like the domestically-owned projects, such as the granting of industrial loans in compliance with the provisions of the Industrial Development Fund under the National Industries Protection and Encouragement Regulations. Foreign sponsors were also facilitated in the new law. A local legal sponsor is required by all foreigners to work in the country. A licensed investment project will sponsor the foreign depositors and their foreign employees according to Article 9. Foreigners should have real property to practice the licensed activity.

Finally, the new law reshaped the taxation of foreign investment. Generally, 'zakat' (a charitable donation) is offered by local firms, which is a 2.5 percent tax on possessions. The foreign investors are facilitated according to the valid tax codes in the Kingdom as per Article 14 in which the foreign-owned portion of joint ventures and foreign-owned corporations are subject to pay 20 percent corporate income tax of net profit. Such tax is among the five countries with the lowest company taxes across the globe (World Bank, 2007). Article 5 of the Executive Rules of the Foreign Investment Act declares that investors can benefit from the evasion of double taxation from any agreements to which the Kingdom is a guarantor in order to protect foreign stockholders from paying this double money. Appendix (2) defines the Executive Rules (the rules for implementation).

There has been a rise in the FDI since the FDI Act in 2000 as a result of the substantial foreign investment in the KSA and continuously elevated oil prices (Library of Congress, 2006). Currently, many reform enterprises have been adopted by the Kingdom for strengthening democracy and further creating new investment opportunities under the leadership of King Salman Al Saud, the seventh ruler of the Kingdom. To accomplish a viable financial growth, a constant political environment and a smart business-friendly climate is the ultimate goal (Ministry of Economy and Planning, 2009). Generally, the new law has facilitated the external investment and investors with an abundant support along with the creation of a desirable environment.

5.4.3.2 The Saudi Arabian General Investment Authority (SAGIA)

SAGIA's headquarters is located in Riyadh and has been formed under the Council of Ministers Resolution No. 2 dated 1421/1/5 H corresponding to 2000/10/2 G (SAGIA, 2016). The President of the Supreme Economic Council reports through SAGIA, a governmental authority. Its major aim is to control investment matters in the Kingdom, comprising foreign investment. This includes the following tasks (SAGIA, 2016) without restriction to the authority.

First, formulating state procedures to encourage domestic and foreign investment for onwards submission to council. Second, recommending execution plans to develop the investment environment for onwards submission to the council. Third, monitoring and evaluating the implementation of domestic and foreign investment, and preparing a periodical report incorporated in the rules. Forth, performing research on investment openings and encouraging these opportunities across the kingdom. Fifth, organising and collaborating with the related governmental authorities so that the desired milestone can be achieved. Seventh, arrangement and participation in conferences, local and international exhibitions, symposia and workshops pertinent to investment. Eighth, creating database and executing statistical surveys for its implementation. Finally, any other task officially assigned to the authority (SAGIA, 2006).

Providing State of Art Business Facilities

The KSA's investment program is based on SAGIA (2016). Its goal is to provide a desirable environment and great profits to the investors. SAGIA (2016) represents the new competitive nature of the Kingdom being a dedicated partner. Since the nation's financial drive is developed, there is a persistent drive of innovation along with the striving of industries by SAGIA that aim to make it the desirable choice for investors from around the globe. Companies operating in the Kingdom will be facilitated by offering great business opportunities to increase their output for ultimate business growth.

Providing Tailor-Made Business Support

The KSA seems to be encouraged by new business opportunities through SAGIA's support. It is opening dynamic business centres throughout the Kingdom (Jeddah, Riyadh, Hail, Jizan, Al Madina, Tabuk Abha and Dammam) in order to facilitate business operations (SAGIA, 2016). In order to perform desirable and fast operations, a productive and very responsive resource is offered by each centre to facilitate companies who provide services i.e., offering everything from opinion, licensing requirements and after it, services by provision of representatives from all government organisations such as the Ministry of Commerce and Industry, General Directorate of Passports, Ministry of Labour, Notary Public, Zakat and Income Taxation Department (SAGIA, 2016).

Providing High Quality People

Success of business is due to skilful human resources that include experts and professionals. The world of business today indeed seeks people who think creatively and act quickly to get a chance of opportunity for investment. In some cases, a country might recruit skilled individuals to be employed and/or attract professional investors to do business. Such traits seem to be evidence of success. The KSA has achieved advanced steps toward attracting skilful people and SAGIA, for instance, was focussed on ensuring success of business by ensuring know-how and professionalism. Moreover, its experts through their close collaboration with the industry identify their employee requirements and fulfil them accordingly. The right people for the right job are ensured by the dynamics of employees perfectly aligned with the need of each company. SAGIA desires to see the progression of Saudis. It strives to provide an acceptable

breakthrough, as growing industries choose the KSA being a strategic location for development.

Concluding from the above, one can make a brief comparison to understand the significance of the institutional and administrative improvements in the KSA. For instance, an annual \$475 million in the FDI was attained by the Kingdom between 1994 and 2004. Nonetheless, since the establishment of SAGIA, foreign investments have gone upwards from this constant rising trend in investments from a fringe \$475 million annually in last years to \$25 billion annually between 2005 and 2012. The increase includes a huge upsurge (an increase of 50 times more) in this latter period in the FDI. Furthermore, the KSA has the capability to entice even more boundless FDI arrivals in the future according to the reports from UNCTAD.

The Saudi government welcomes the constant FDI inflows along with the enhancement in its structure, such as endorsing a new Investment Law and launching SAGIA to facilitate FDI processing and a 'one-stop shop' formula across the Kingdom. For example, 100 % direct foreign proprietorship of businesses are allowed in petrochemicals, gas, water desalination and power generation sectors through this law. Likewise, the highest corporate income tax levied on foreign investment has been curtailed from 45 to 30 % in order to further eliminate constraints on return of profits. The foreign investors were also enabled to have their assets in the Kingdom, except in the two holy cities of Al Madinah Al Munawwarah and Makkah Al Mukarrammah.

Launching of foreign investment of key sectors such as power, telecommunications, mining and infrastructure petrochemical across the country and the establishment of six economic cities and distinct economic zones facilitated the FDI upsurge. Moreover, there is no capital requirement for initiating a business and a multiple-entry visa is granted to foreign entrepreneurs, valid for 12 months, without obtaining government letters. The Kingdom is significantly uplifted due to these improvements.

5.4.3.3 The National Competitiveness Centre (NCC)

Experience demonstrates that in terms of the importance of countries seeking to attract new and upcoming ventures, one must build on excitement and growth in order to remain

competitive. A number of factors contribute to the growth; living standards, success attained, steadiness, willingness, zeal, career breaks, justifiable financial growth, high levels of progress, increasing rates of new business start-up, growing GDP, expanding the economy's creative base, refining the performance of several government and private divisions (National Competitiveness Center, 2009). The key initiative to achieve the high investment rates for the financial growth is to refine the investment environment.

SAGIA established the National Competitiveness Centre in 2006 as a broad framework to monitor, measure and help improvement in the KSA. There are three ways to meet the requirements through the NCC.

It is a catalyst for change by developing competitive evaluations and observing the execution along with outcomes of change programs. Two key areas are emphasised in these programs: refining the ease of business operations through stimulating innovation in the environment; and improving the efficiency of microeconomic system through development of unmatched groups. A current example is its role in abolishing the minimum capital requirement. The business case approved by Royal Decree on July 17, 2007 supported this change.

The NCC acts as a change catalyst and helps in developments of forums between the public and private sectors. The development of Cluster Advisory Councils is currently being supported whereby which both stakeholders are brought together in key clusters to discover and co-operate on value added enterprises.

To conclude, it acts as a change communicator, communicating the outcomes of the Kingdom's enduring value through the channels like "The Competitiveness Review" (National Competitiveness Centre, 2009).

The Kingdom's effectiveness program encouraged by the National Competitiveness Centre has achieved the following:

1- Competitive Saudi

The "Competitive Saudi" Initiative is being encouraged by the NCC as part of its effective program. Its aim is to develop a market giant and a persuasive KSA with the following

commitments. First, guide on plan restructuring about investment atmosphere of the KSA. Second, maintain national competition as a core module of the fiscal reform program. Third, implement monetary plan through independent research leading to worth of KSA's investment setting. Finally, encourage the plan in the critical that affect the investment (National Competitiveness Centre, 2009).

2- Sustain Competitiveness

The worth of the KSA is evaluated, reported and measured with the help of the 'Saudi Sustain system'. It determines local and country value along with the FDI. Across the KSA, the NCC is the associate of the WEF (World Economic Forum). This plan is likely to generally determine Saudi competitiveness for further submission to the GCR (Global Competitiveness Report), the prominent competitiveness report. The local investor survey drives the LCI (Local Competitiveness Indicator). The job creation and financial growth in the regions is expedited through the regional competitiveness plan with practical and efficient outcome of neglected areas. Certain indicators are upgraded by the implementation of annual action plans. The SCR (Saudi Competitiveness Report) produced by the NCC monitors the Saudi efficacy based on local survey, SCR and local standard. The report shows the reforms and their influence on Saudi economy along with suggestions to improve different pointers. Value and database of Foreign Investments. It leads the FDI activities and their significance on the employment and job creation (National Competitiveness Centre, 2009).

3- Regional Competitiveness

A Region-level Competitiveness Indicator will be developed for the annual evaluation of the investing atmosphere and accomplishment of the Kingdom. The objective of this indicator is to maintain local economic growth by supporting all the finances across the Kingdom due to the close relationship between assets and improved values along with reducing the local based difference in fiscal growth. The stable development at all economic levels will be accomplished by the Kingdom by realising these three aims, basic economic indicators: features for development of a cost-effective business environment, economic competitiveness incentives: upkeep the corporate development and effectiveness and innovation and business development

factors: strengthens rapid and state-of-the-art business development (National Competitiveness Center, 2009).

1- Regional Investment Reports

The sponsors and stakeholders from the Kingdom have analysed such sets of reports, which illustrate the economic growth of different regions so that local investments can be encouraged with these objectives, the potentials and resources of each region are highlighted, key financial developments to be highlighted in specific regions and discovering new investment aspects conforming to the region wise resources (National Competitiveness Centre, 2009).

2- Councils on Competitiveness

The Kingdom's effectiveness program driving the success within the domain of the councils is revealed by the councils on competitiveness. They act as a channel between the private and public sector through which collaboration and synchronisation can be uplifted.

Aid for these councils will be maintained by SAGIA through the NCC. Their goal is to discover, arrange and improve the procedure for those obstacles by which many sectors are not able to play a significant role towards the country's key track to gain an expanded and prosperous economy.

Finally, the Councils on Competitiveness are proposed for quick and effective change within the Kingdom; hence, value creation through financial development will be illustrated by enhancing the processes for a smooth business. The major councils involved in this initiative are, ICT Council led by the Communications and Information Technology Commission (CITC), labour Council ruled by the Ministry of Labour and transportation Council regulated by the Ministry of Transportation (National Competitiveness Center and SAGIA, 2009)

3- International Agreements

The investment to assure the financial bond between the KSA and other countries along with desirable conditions for huge investment across the borders is likely to be promoted by the NCC following its efficiency plan (National Competitiveness Centre and SAGIA, 2009).

Moreover, the NCC is recognising the worth of the inspiring and gradual release and for an economic boom within both nations. More than 20 joint investment contracts with a few Asian and mostly European countries have been signed by the KSA, which include: Austria, Azerbaijan, Belarus, Belgium, China, Czech Republic, France, India, Indonesia, Italy, Germany, Malaysia, Philippine, Singapore, South Korea, Spain, , Swaziland, Sweden, Turkey, Ukraine (National Competitiveness Centre and SAGIA, 2009). To enhance the investment environment in the KSA, there are many countries yet to sign these agreements so that secure investments are ensured to the foreign investors across the Kingdom.

5.4.3.4 Accession to World Trade Organization

It is difficult to join the WTO (World Trade Organization) for the countries planning and applying for an agreement. The cause is of an inherent and dual nature. Certain applicable decisions from applicants on diverse subjects are desired by the organisation for its planning. The current matters have spread beyond customs law, tariff schedule and guidelines on imports and exports and the new dimensions are now to be incorporated such as domestic taxation, central banks and credit institutions, laws on joint stock companies, patent and copyright protection and licensing of economic activities, etc. (Michalopoulos, 2001: 179-180). Therefore, any country desiring to comply with the WTO should anticipate a thorough process spanning over at least two years, however, it could last more than a decade according to practice. For example, China took fifteen years to acquire its agreement. In 1985, the Saudi WTO contract started with the Kingdom's entrance to the joint trade system, which is among the most prolonged WTO agreements comparable to decade long periods of Russia and China to acquire the agreements. Russia was the longest among other countries to join the WTO for 18 years followed by China for 14 years (Aslund, 2011). The free market primarily drives the WTO standards (Jackson, 1997). Since the Kingdom has never been ruled by the communists, the lengthy accession period is obviously short. It might be because communist countries have received quite standardised procedures controlling business and regulating FDI with other countries. Its justification will certainly bring interesting aspects. Rulers of the KSA are likely to hold complete power in devising global policies and the Kingdom is enriched with the world's largest oil reserves, which were supposed to be out of the WTO domain. Ethnically, there is a religious hold of Islamic and Sharia law across the Kingdom which is inconsistent with international standards occasionally.

Similarly, there were both the local and global political actions during the Saudi agreement phase. Saudi administration was under political and monetary stress in 1991 during the Second Gulf War. Like Russia, the priorities of the main Saudi supporters were shifted by the end of the Cold War. Saudi political life was also heavily affected by the 9/11 attacks on the USA. Moreover, an important change in 2005 was observed when command was taken over by King Abdullah after twenty-five years of kingship by King Fahd. Since there was concern about the Saudi WTO accord, these political and economic features were not unbiased. The accession process was thought to be uncertain since it both facilitated and hampered the process at times.

5.4.3.4.1 WTO and Attracting FDIs

FDI inflows are promoted in developing nations by resources, proficiency and technology. Actually, many of these complying nations support the foreign inward reserves along with great appreciation for them (Short, 2001). These countries have faced difficulties to gain the desired reserves regardless of this promising attitude towards external investments, and this might be due to the absence of an adequate environment (Ricupero, 2001). Conforming countries have been struggling to establish the suitable investment environment to integrate with the global economy. However, without WTO membership, it would not be of great use even if such an environment had been prepared. Reliability holds great significance for both local and foreign stakeholders. Credibility may be accomplished through the compliance with the WTO (Drabek and Bacchetta, 2004).

A serious financial predicament faced by the KSA due to the decline in oil prices before the year 2000 occurred. Additional investments were needed to uplift the economy since the previously developed existing structures headed towards insignificance. Therefore, the arrival of foreign investments was facilitated by the authorities. It ultimately developed its monetary significances (UBS, 2003). The reputation of the WTO fellowship for transparency, credibility and certainty to investors has been recognised by the Kingdom (Financial Times, 2005; Reuters, 2005). For example, the Deputy Governor of the SAMA indicated that ‘membership’ illustrates uprightness to the stockholders in the same way (Al-Eqtisadiyah, 2005).

In addition, protection of intellectual property is a sensitive domain. The country's regulations and trademarks were reshaped when the KSA obtained an agreement with the WTO. Improvements are yet to be required within this system and political impact. The transparency and prompt actions are not evident from the courts. Laws should be constantly reviewed for defending intellectual property to be associated with the WTO's TRIPS contract (Trade-Related Aspects of Intellectual Property Rights).

In 2005, the KSA's rise into the WTO made remarkable changes in the corporate transactions with foreign parties and had a great influence on FDI incursion. Many economic sectors were hassle-free due to the commitments from the country. For example, 70% foreign equity rights were allowed in the telecom sector, which was missing before 2005 (SAGIA, 2006). The external insurance companies were allowed to launch direct branches along with discounts in price. A desirable corporate environment can be developed by gaining membership with the WTO.

SAGIA (2006) recommends standards to uplift the stock environment across the Kingdom; prepares investment actions, along with determining and permits investment suggestions. The additional amenities have been rapidly launched by the Kingdom for external capitals after the contract with the WTO, such as, repair and maintenance of computer and aircraft systems, banking services, trade, wholesale, both value added and basic telecom services, franchise distributions, and investment in the computer and allied areas (SAGIA, 2006). Finally, the FDI has been uplifted from \$33.5 billion in 2005 to \$187 billion in 2012 since the 2000 liberalisation and the Kingdom's agreement with the WTO in 2005 (SAGIA, 2006).

5.4.3.5 10x10 Programs

5.4.3.5.1 What is 10x10?

A goal of securing a place in the world's top ten competitive investment destinations by 2010 is the basis of the 10x10 programs (SAGIA, 2006). Obstacles existing in accomplishing the financial durability, long-term growth and economic sustainability were discovered by the KSA in 2006 (SAGIA, 2006). The nation's growth was hampered by the low economic diversification and labour participation regardless of its dynamic energy sector. Also, the public

service sector would be saturated by the rapid increase in the youth population. Accordingly, the non-oil-based diversified sector needed to create jobs to ensure success for the upcoming generation.

With the inception of the 10x10 program, the FDI was believed to be a significant factor in evolving and expanding the Saudi economy. The success value would develop a healthy trade for this FDI. This program was developed to achieve the FDI level essential for the dynamic Saudi recession.

The 10x10 program was launched with two aims in 2006: to rank the KSA among the world's top 10 economies by 2010; and to endorse restructurings and uphold targeted investments in order to develop the private sector (SAGIA, 2006). Under the sponsorships of 10x10 programs, such transformations will streamline and execute the institutional development along with the corporate procedures to radically enhance the Kingdom's output universally. The KSA could physically realise improved reserves in the FDI through the development of a desirable economic system (SAGIA, 2006).

The result of this program might not be analysed as it was planned due to the period, but it is still considered as a success for the KSA. In fact the KSA has improved significantly in the World Bank's business environment, ranked in 15th position within a 2 year period, and to improve, reaching 11th place globally by 2012 (McKinsey and Company 2012).

In 2006, SAGIA launched the NCC so that the progress in Kingdom could be independently monitored, evaluated and maintained to ultimately boost productivity (SAGIA, 2006). The NCC intellectually creates competitive evaluations and observes the output of change programs. It is also a catalyst of change that creates forums between the public and private sectors for useful discussions.

With the assurance, extraordinary energy, and partnership from 2006 to 2010, the KSA today has recognised significant enhancements under the 10x10 programs. Although these programs only trigger the first step of the evolution for the Kingdom, it is a critical step. Also, the restructuring drive would be maintained by the Kingdom, which was stimulated across various institutions through long term association.

5.4.3.5.2 How the NCC Measures Competitiveness?

Since several complex features collectively shape the effectiveness, there are matchless definitions according to global organisations. Certain standards are followed by each agency to evaluate the country with regards to determining its position. The two primary indexes are used by the NCC to determine the Kingdom's competitiveness (Figure 5.11).

Figure 5-11: The Two Measures of Competitiveness Used by the NCC to Evaluate Progress



Source: The National Competitiveness Centre (2009).

The business atmosphere is being emphasised in the *Ease of Doing Business Index* published by the IFC (International Finance Corporation) and World Bank (The National Competitiveness Centre, 2009). Standardised case studies were used to measure activities such as business inception, obtaining credit, construction licenses, performing diverse business procedures and implementing bonds (The National Competitiveness Centre, 2009). This approach is utilised by the NCC in order for leading environment scaling to execute the businesses and to make improvements by following the best practices of other countries.

The Global Competitiveness Index is also utilised by the NCC in order for the Kingdom's worth at both the microeconomic and macroeconomic levels to be measured (The National

Competitiveness Center, 2009). Under this index, education and health care are the prominent factors for the stable growth of the country; however, they have no direct impact on the business environment.

Several measures of monetary functioning are used to evaluate the countries. For example, the Milken Institute outlines the capital accessibility in its Capital Access Index (The National Competitiveness Centre, 2009). The Institute for Management Development offers a productivity report identical to that of the WEF. Gallup Inc. and Transparency International calculate alleged levels of corruption. The countries are ranked through their deficiency of preventive guidelines according to the Index of Economic Freedom (Heritage Foundation, 2016). The investment views and the FDI are being measured by the World Bank's Investment Climate Assessment. Specific features of effectiveness can be managed by these indicators; however, the comprehensive assessment cannot be obtained in the way it was achieved through the NCC standards.

Globally, the rankings of these two indexes would be used by the authorities as a framework when they desire to improve their financial worth. To plan national reforms these indexes are helpful, but these are only guidelines. The indexes are used to measure the output along with identification of critical areas. Future prospects look promising.

5.4.3.5.3 Overview of Results

It was acknowledged while launching the 10x10 scheme that the corporate environment of the Kingdom needs to be constantly fulfilled or surpass global criteria in order to strive for the world's top thrifts. A fast track FDI utility has been determined by the NCC across the Kingdom. With respect to construction permits, contract enforcement, getting credit, and trading across borders, the KSA has shown remarkable progress in its efficiency more than any other country in the history of the Ease of Doing Business rankings by the World Bank as a result of 48 reforms (Table 5.2) between 2006 and 2010.

A desirable environment has been developed for foreign investments. The controlling procedures were affected by the reforms between 2006 and 2010. In the last four years, great progress has been made by the Kingdom in the 'Ease of Doing Business' levels, reflected in it

leaping from 38th to 11th place, overall. The MENA region has observed the Kingdom as a top performer. Generally, these business friendly reforms have enhanced the initiation of trade by curtailing time, cost and complications; and areas such as acquisition of construction permits and credits, trading across borders, implementing contracts, and business closure have become very easy.

Table 5-2: List of Reforms Under 10x10

Indicator	Year of Reform	Reform
Starting Business	2006-2007	Eliminated minimum capital requirement for registration of limited liability companies
	2006-2007	Eliminated requirement to stamp company books by chamber of commerce
	2006-2007	Eliminated approval of municipality of office location
	2006-2007	Established a one-stop shop for establishing new companies in the Ministry of Commerce and Investment (MOCI - Riyadh Office)
	2006-2007	Streamlined registration process at the Ministry of Commerce
	2006-2007	Lowered fee from Chamber of Commerce from SAR 6,000 to SAR 2,100
	2006-2007	Eliminated 7000 SAR from overall registration fee by consolidating fee collections and establishing the online publishing of the Articles of Association
	2007-2008	Eliminated the requirement to publish the establishing contract in the newspaper and lowered fees for articles of association (1500 SAR)
	2007-2008	Decreased of fees from Ministry of Commerce from SAR 6,000 to SAR 1,200
	2007-2008	Streamlined application process at one stop shop and introduced GOSI registration
	2008-2009	Consolidated the process of registering the GOSI & DZIT into the one-stop shop
	2008-2009	Consolidated the process of registering for a bank account into one stop shop office
	2008-2009	Lowered average fees for publishing the Articles of Association from 5,500 to 2,200
	2008-2009	Consolidated the process of publishing the Articles of Association, registration with MOCI & Chamber of Commerce, publication in local newspaper
	2009-2010	Streamlined the application process to reduce the number of days for registering a limited liability company
	2009-2010	Reduced cost of publishing articles of association to flat fee of 500 SAR
Indicator	Year of Reform	Reform

Dealing with Construction Permits	2008-2009	Introduced a one-day licensing office at the Riyadh Municipality
	2008-2009	Corrected information on the fees associated with obtaining utilities connections
	2008-2009	Eliminated the requirement for warehouse builders to secure a stamp from the Chamber of Commerce to receive a telephone connection
	2009-2010	Launched one-stop shop for dealing with construction permits and requesting utilities (Water, electricity, sewage, and telephone)
	2009-2010	Consolidated water and sewage inspections and connections
	2009-2010	Consolidated water and sewage connections
Indicator	Year of Reform	Reform
Employing Workers	2008-2009	Secured permissions of MOL to institute flexible structuring of severance of pay
	2009-2010	Clarified that the weekly holiday can be changed from Friday to any other day of the week without obtaining permission
Indicator	Year of Reform	Reform
Registering Property	2007-2008	Streamlined registration process by introducing electronic system for registration
	2007-2008	Introduced Real Property Registration Law 4493
Indicator	Year of Reform	Reform
Getting Credit	2006-2007	Expanded credit registry membership to non-financial lenders
	2007-2008	Extended Decree M/14 to insolvency cases
	2009-2010	Amended the Executive Regulations of the Commercial Lien Act (permitted generic description of collateral, authorized out-of-court enforcement)
	2009-2010	Introduced Unified Centre for Lien Registration (collateral registry)
	2009-2010	Guaranteed absolute priority for secured creditors in bankruptcy proceedings (Decree M/14)
Indicator	Year of Reform	Reform
Paying Taxes	2009-2010	Introduced online zakat filing via SADAD
Indicator	Year of Reform	Reform
Protecting Investors	2006-2007	CMA enacted new corporate governance rules for shareholding rights and transparency

	2006-2007	Drafted new rules holding directors liable when related party transactions are unfair
	2006-2007	Clarified that minority shareholders have the right to access and review company books and documents
	2007-2008	Passed of Decrees 5714 and 5175 which strengthens disclosure requirements and director liability laws
	2008-2009	Clarified that minority shareholders owning 5% shares can request an inspector investigate the transaction
	2008-2009	Clarified that information about transactions where there is a conflict of interest must be made public
Indicator	Year of Reform	Reform
Trading Across Borders	2006-2007	Implemented Saudi EDI, automated customs clearance process
	2007-2008	Reduced port handling fees by 50%
	2009-2010	Expedited customs clearance process with establishment of a One Stop Shop; reduced storage fee exemptions by Ministry of Transport
Indicator	Year of Reform	Reform
Enforcing Contracts	2008-2010	Deployed and trained additional enforcing judges at Board of Grievances
	2008-2010	Overhauled the judiciary systems; streamlined and clarified judicial procedures
	2009-2010	Implemented of a new electronic system ('e-Courts')
	2009-2010	Created new commercial courts
Indicator	Year of Reform	Reform
Closing a Business	2006-2007	Capped liquidation proceedings at 18 months
	2009-2010	Established Committee for Amicable Settlements to facilitate reorganization in insolvency proceedings (MOCI)
	2009-2010	Passed amendments to the regulations guiding the committee for Amicable Settlements to set the time for settlement at 4 months with payment within 1 month of ruling (MOCI)

Source: The National Competitiveness Centre (2009).

5.4.3.5.4 Beyond 10x10

The KSA has achieved their Doing Business rankings (2011) of 11th, rising from 38th in just five years. Today it has a sound position among some of the most developed countries in the world. The NCC's determination and Kingdom's reform truly reflects their last five year's achievements. Every effort has been made from incremental reforms to the new units to enhance the ease of doing business across the Kingdom (The National Competitiveness Centre, 2009).

It is considered that the NCC's efforts will not end with the official closure of the '10x10 Program'. A three split approach has been recommended by the NCC: keep pushing the Doing Business rankings, maintain economic success and usefulness across the Kingdom, enhance efficiency in key sectors as part of a 5-year strategy for the KSA and SAGIA's financial reform. Thus, it is observed that the Kingdom has realised the benefits of the 10x10 by becoming an economic destination.

5.4.3.5.5 Continuing to Drive Competitiveness Reform

To enter the 'top ten' of the World Bank's Doing Business report, a sustained reform agenda is required in the upcoming years. It is vital for the KSA to implement the reforms between 2006 and 2010 to provide a future framework, tie up any loose ends and realise the benefits of the 10x10.

Driving Further Reform: The business environment and ease of doing business can be boosted by the Kingdom and the NCC in 2016/2017 in this following ways:

First, Enforcing Contracts: The best-practices adopted in Singapore with a target threshold and fast-track process for commercial disputes should be evaluated for suitability in the KSA to further streamline the process and time required for contract implementation. Second, despite facilitation by the government and the new Saudi law of arbitration issued on 2012, the law does not accept any provisions contrary to Shari'ah, and thus, the level of enforceability becomes limited for all transactions that include activities not accepted by Shari'ah (Martin and Al-Ammari, 2016). Third, closing a Business: While increasing the awareness of liquidation

value for restructuring distraught businesses, new measures that accelerate and stimulate the reorganisation of distressed firms should be executed. Fourth, getting Credit: The Executive Regulations for the Commercial Lien Act has passed many reforms to date. The creditors' significance is clarified along with establishment of a collateral registry. This Act should capture these reforms itself to accelerate the operation and gain complete acknowledgment. Dealing with Construction Permits and Trading across Borders: The standard business procedures have been considerably streamlined. In general, further procedures need to be consolidated to acquire construction permits and trading across border regardless of this progress (The National Competitiveness Centre, and SAGIA, 2009).

Rollout Reforms, many reforms such as the Unified Centre for Real Estate Projects have served as pilot projects to illustrate the new rules. Each reform is highly productive for every Saudi, when deployment and mergers of Unified Centres transforms into regional one-stop-shop centres for all business needs. Several government institutions and regions would be involved to restructure the processes, design the tracking mechanisms, and ensure the smooth implementation of recent reforms (The National Competitiveness Centre, and SAGIA, 2009).

Track Data, the implementation of the reforms is observed by the NCC. It significantly illustrates the adoption of best practices and the effect of the reforms. Any key business process that is troublesome or drifting can be addressed by this system. This is a part of the 10x10 programs since it firmly holds the benefits and will provide the base upon which the KSA can constantly improve its worth (The National Competitiveness Centre, and SAGIA, 2009).

On the other hand, a report developed by SAGIA (2009) has summarised the reform actions of the KSA's 10X10. The report indicated that the KSA has sought to provide a modern institutional framework for operating business globally. It takes systematic steps to reduce routine, reducing the administrative burden, in addition to building institutions that promote transparency and integrity. One example is the establishment of the Capital Market Authority, which in addition to advanced and resolute steps specialises in information and communication technology. The KSA has also taken serious steps to reform the legal system, reflected in the creation of a new Supreme Court and appellate courts, as well as specialising in business courts, in addition to the allocation of two billion (UD\$) for the development of the judicial system resources. Perhaps the Kingdom has not been able to achieve all the required reforms in

chronological time, however, despite the lack of completion of all these reforms, there are significant improvements in the judicial and legal aspects, which is a strong deterrent against irregularities and fraud and will serve to boost confidence in business dealings. It is obvious that the KSA has failed to attract investors in some specific areas. Al-Yahya (2010) further noted the KSA's failure in attracting considerable FDI particularly in telecommunications, health and education, transportation, and power industries.

5.4.3.5.6 Enhancing Competitiveness of Strategic Sectors in the Kingdom

Focus must shift from the local level to the efficiency of strategic sectors since the NCC develops strategies as part of the developments to the Kingdom's success. While the Kingdom has been ranked among the most effective countries across the globe by the input of NCC, national efficacy merely cannot fulfil the economic goals of the Kingdom. The foreign investment to new levels would be invited by the development of various economical strategic zones. Creation of jobs for Saudis is possible along with accelerating financial expansion and driving non-oil export growth (The National Competitiveness Centre, and SAGIA, 2009).

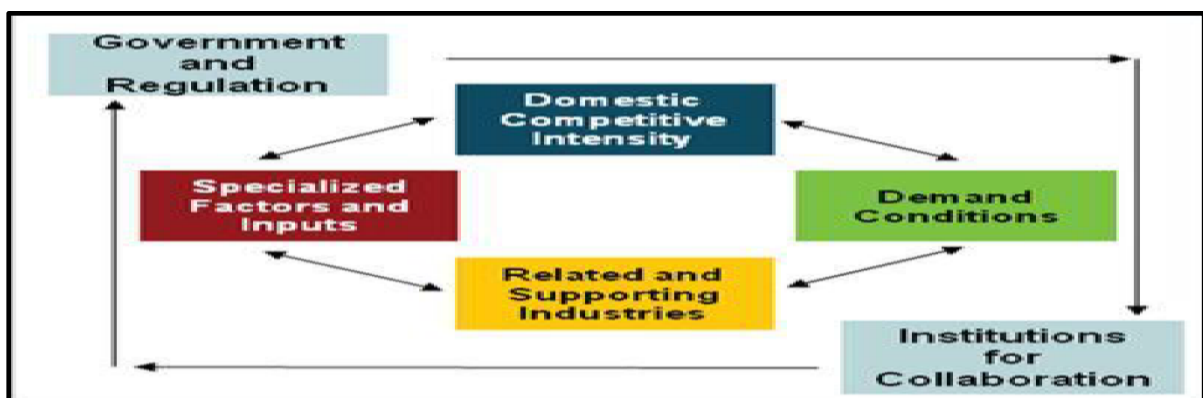
SAGIA attained national effectiveness for improving sector level matters through the success of the 10x10 program. These key strategic sectors would be discovered and the priorities for investment would be shaped to offshoot the development with the 5-year strategic plan of SAGIA. The SAGIA has a broader vision to remain actively involved with diversified stakeholders to expand these sectors, as there would be the influx of external capitals, employment creations and financial success over the next several decades. SAGIA would be supported by the NCC through discovering the mechanisms to expose foreign domestic investment along with measuring the efficiency of strategic sectors.

Currently there are no such groups to quantify the universal competitiveness of the countries sectors, other than their relative share of the worldwide market, although a procedure and self-governing measurement of national productivity delivered by the United Nations, World Bank and the World Economic Forum exists. The NCC will maintain the SAGIA by creating a 'Competitiveness Framework' as a part of this five-year plan (Figure 5.12) for categorising priority areas for development and performing an overall evaluation of the current state of productivity. Involvement allowing for great collaboration in this process across various

stakeholders such as the Ministry of Labour, Ministry of Commerce and Industry, the King Abdullah City for Atomic and Renewable Energy and the KAUST. The key factors would be emerged by this framework, through which internationally viable sectors would be described significantly (The National Competitiveness Centre, and SAGIA, 2009).

The government is the largest employer in the country, and this monopolistic trait provides influence in setting the cultural trends and ethics in a country. By legislation and regulations, the government can foster innovation, and correspondingly contribute to the Domestic Competitive Intensity in the economy. Each sector of the economy has certain unique specialised factors and inputs that are advantageous over the next sector, determining the level of financial inflow to a sector. Progressive levels of client awareness, and having to compete with cheaper imports would contribute to determining the parameters of the Demand Conditions required to be exceeded by manufacturers for being competitive. Progress and innovation in a particular economic sector has the ripple effect of creating corresponding developments in related and supporting industries, since no industry can flourish without the presence of the required supporting infrastructure required over the long run. Finally, strategic partnerships and a unified approach towards progress lays the foundations of the institutions for collaboration towards encouraging all to play their required roles towards ultimate progress.

Figure 5-12: Competitiveness Framework



Source: The National Competitiveness Centre (2009).

Accordingly, the Saudi economy is on track towards being competitive. Indicators of economic competition maintained by the World Bank, or the International Finance Corporation are only as important as the conditions within which they are implemented, and while these institutional

parameters are certainly to encourage progress, the actual level of growth in the Saudi economy can only be judged by the competitiveness and opportunities ultimately offered to entrepreneurs and corporations here.

Over a five-year period (2006-2010), the NCC has taken necessary steps towards fostering competitiveness in the economy, and this has in turn been a driving force towards increasing annual foreign investment to US\$35.8 billion in 2009, compared to just around US\$12.1 billion in 2005. These investments are sizeable and a huge success for the nation, with over 40% of the corporate tax revenue income being fulfilled by earnings from these investments (NCC and SAGIA, 2009). The figures also demonstrate the crucial role foreign investment can play in diversifying the economy, creating jobs and in providing a source of revenue for the nation.

Following the challenges many countries have faced in the aftermath of the global financial crisis, they are now aware of the role foreign investment can play in reviving their economies, and attracting investments to their shores, even while making a few mistakes in the process. To counter this, a key aspect of the 2010-2015 SAGIA initiative has been the “Invest Saudi” campaign, which intends to move towards attracting significant investments in key economic sectors which will contribute to increases and growth in the economy, diversify the market, increase exports and create jobs. NCC has undertaken to mentor prospective investors, towards this effort.

5.4.4 Business Culture in the KSA

Under this section, the study attempts to identify the business culture in the KSA. Therefore, Saudi studies on business culture are primarily based on Hofstede’s (1984; Hofstede, 2001; Hofstede, 2009) theories, emphasising four factors for determining culture in society. These include the measure of differences in the power distance within nations, the degree of uncertainty in a country, the extent to which a country relies on itself versus being part of the collective comity of nations, and the extent of masculinity or femininity observed in the society. In 2001, he proposed the additional dimension of focussing on short and long term orientation (Hofstede, 2001). The measures of the five dimensions are judged on an ascending scale of 0 to 100 (Hofstede, 2009). [The fifth dimension was proposed by Michael Bond in Hong Kong, who has successfully argued that the original four dimensions are inadequate in specifying all](#)

the complex aspects related to the Asian cultures too (Hofstede, 2001). However, this dimension is not a part of our studies in the Saudi context, since Hofstede states:

“Long Term Orientation stands for the fostering of virtues oriented towards future rewards, in particular perseverance and thrift. Its opposite pole, Short Term Orientation, stands for the fostering of virtues related to the past and present, in particular, respect for tradition, preservation of ‘face’ and fulfilling social obligations” (Hofstede, 2001, p. 359).

Hofstede (2009) on the other hand, is of the opinion that cultural perceptions may significantly affect the way business dealings are done. While these perceptions normally facilitate business and commercial relationships, it is possible to present a hindrance to the growth and progress which could be achieved from the commercial associations intended to be made (Rivera-Vazquez, Ortiz-Fournier and Flores, 2009). French (2010) asserts researchers’ understanding of culture is influenced by the individual’s personal value systems and their living environment. He has discussed this on a range of cultural factors, but Hofstede’s theories are the more widely accepted in this regard.

Despite all the known shortcomings in the theory, the Hofstede model continues being studied widely (Erumban and de Jong, 2006; Kankanhalli, Tan, Wei, and Holmes, 2004). The theory has been evaluated practically in more than 72 countries (Hofstede, 2009). The table below provides a sampling of the scores from the Hofstede model, with the figures focussing on values for the UK and the KSA.

Table 5-3: Hofstede’s Original Four Cultural Dimensions and the Scores of the KSA and the UK in the Four Dimensions.

Cultural Dimension	KSA	UK
Power Distance	80	35
Uncertainty Avoidance	68	35
Individualism	38	89
Masculinity	52	66

Source: Hofstede (2009)

The study is representative of measures from 72 countries and reports for the purposes of this study the four dimension scores for the KSA and the United Kingdom only. Hofstede (2009) emphasised the differences in cultural perceptions between the Middle Eastern countries and the West. For example, in Western culture, the aim “is to work towards a target of mutual understanding and agreement”, and participants “shake-hands” on concluding an agreement. Shaking hands indicates the conclusion of an agreement, and the starting of the “working together” phase (Hofstede, 2009). However, in the Middle East, a lot of discussions take place merely to align the views of both negotiators, “leading into the agreement” (Hofstede, 2009). Hence, just an agreement to continue working towards an understanding is indicated by shaking hands, even if no formal agreement has yet been concluded and the details all remain to be sorted through (Hofstede, 2009).

Few Western studies have fully focussed on the Saudi commercial culture. Instead, Budhwar and Debrah (2001) observe that Islamic teaching significantly affect the management styles. This was also seconded by Bjerke and Al-Meer (1993) who have observed that the Saudi work behaviour is a mix of Islamic teachings and Arab customs, and this is also reflected in the attitude and conduct of the Saudi population.

The four Hofstede dimensions are compared and evaluated below, analysed in both Western and Saudi perspectives towards explaining and understanding the outcomes, and examine how these observations have an effect on FDI in the country.

5.4.4.1 Power Distance

Power distance defined as “the extent to which the less powerful members of organisations and institutions (i.e. family) accept and expect that power is distributed unequally. This represents inequality (more versus less), but defined from below, not from above” (Hofstede, 2009). Hofstede’s (2009) study concluded that of the 72 countries evaluated, the UK had one of the lowest readings for power distances, which is significant against other countries, including the KSA. This means that there is a less observable sense of superiority between the lower strata of society and the management cadres, contributing to the knowledge-sharing process and the

production process in the countries. This informality in the organisation facilitates top-down, and bottom-up communication (Rivera-Vazquez et al., 2009). Calling work colleagues by first names would be more prevalent (Pellegrini & Scandura, 2006), and the lower cadre would perceive themselves having the opportunity to provide input to management (Alves, Lovelace, Manz, Matsypura, Toyasaki and Ke, 2006). Thus, such cultures would observe leadership styles being more responsive towards issues of flexibility, innovation, and general skills (Dickson et al., 2003).

Baruch and Hall (2004) have concluded that in lower power distance cultures, employees perceive “empowerment which leads to positive effects on the performance of employees”. The KSA’s power distance value of 80 is very high compared to that of the UK (Hofstede, 2009). This in turn means Saudis characteristically display a culture of inequality between the different cadres in the organisation, with superiors expected to disassociate and remain aloof from the lower cadre employees, and lower level employees expecting the management to be autocratic, harsh and paternalistic (Al-Gahtani, et al., 2007). It is also derived that high power distance cultures are more traditional in the outlook of their views on social associations (Hofstede, 2009). Baker and Abou-Ismael (1993) expound that Arabian and Islamic customs and traditions have contributed to Arab societies being this way.

5.4.4.2 Uncertainty Avoidance

The uncertainty avoidance dimension demonstrates how the population is accepting of doubts and ambiguity in a situation (Hofstede, 2009). This parameter deals with how the management cadre deals with unexpected situations and challenges, how easily they cope with the same, and to what extent management would be willing to go towards ensuring that the status quo in routine functions are always maintained the same over time (Hofstede, 2009). Hofstede’s (2009) analysis indicates that compared to a global mean of 64, the UK have values of 40. This in turn provides proof that the working culture in these countries is more open, and the management is more willing to accept and try out new ideas and thoughts since the theory states that low values in the uncertainty avoidance dimension accounts for a more tolerant and diversified society and culture (Hofstede, 2009; Rivera-Vazquez et al., 2009).

Compared to the global average, Saudi society had high values for both the power distance and the uncertainty avoidance dimensions (Al-Gahtani et al., 2007; Hofstede, 2009), which was proof that the prevalent environment in the country is far stricter and controlling. Memos, rules, regulations and the like would be the order of the day while the senior management tried to predict and control every dimension and aspect of the lives of the lower cadre. Such societies showed greater tendencies for the inequality of wealth and power (Hofstede, 2009).

5.4.4.3 Individualism versus Collectivism

The individualism dimension has been explained by Hofstede (2009) as the tendency where people are thought to be more independent in caring for themselves and their dependents, whereas collectivism is where the people have a strong family or tribal setup to fall back upon and who can be expected to take care of multiple aspects of the individual's life, in return for loyalty and allegiance to the leaders of the tribe (Hofstede, 2009). The global average of the individualism versus collectivism dimension is 64. Against this, the UK have recorded figures of 89, while the KSA has recorded just 38 (Hofstede, 2009). This goes to prove that while individuals in the UK are expected to be more independent in being able to decide the course of their lives, they may have a looser social bond, commitment and relationship level within themselves, unlike Saudi society (Hofstede, 2009; Al-Gahtani et al., 2007).

5.4.4.4 Masculinity versus Femininity

This aspect concerns “the distribution of roles between the genders which is another fundamental issue for any society for which a range of solutions are found”. Hofstede (2009) has proposed, a) “women's values differ less among societies than men's values; b) men's values from one country to another, contain a dimension from very assertive and competitive and maximally different from women's values on the one side, to modest and caring and similar to women's values on the other.” Therefore, the assertive aspect of the dimension is labelled “masculine”, while the softer, caring end of the dimension is the feminine role with even the women in “masculine” countries being more assertive and competitive than their counterparts in the “feminine” nations (Hofstede, 2009).

Considering the global average of 50.2 units for this particular dimension, Hofstede (2009) has calculated the UK as having values of 62 and 66, while the KSA has recorded 52, all of which are of a high measure indicating that the UK and the KSA probably have a masculine environment. Hence, gender differentiation on specific roles is more pronounced in such countries, and males are the dominating gender, although even the women here are more assertive compared to those in “feminine” countries (Hofstede, 2009). It may also be that women are subservient in the Arab World; but this may have more to do with religious customs than with culture alone (Hofstede, 2009).

Concluding from the above, the Hofstede dimensions are compared from a Saudi perspective versus Western countries, such as the UK and USA to understand the impact it has had on FDI in the KSA. This section deals with an analysis of the theories which determine how human behaviour comes around, how cultural perceptions and the resulting behaviour of the society and the individual is measured and determined. Towards this end, Hofstede’s theories are dwelt upon in detail, which provides for perhaps one of the most detailed analysis towards identifying how the culture and tradition in a particular geographical location would determine the kind of business environment an investor can expect when they go to that particular country. While critics have raised certain valid issues regarding this theory, taking the overall pros and cons, the text of the theory is certainly valid in current times to a great extent, given that the theory has been applied with a fair degree of accuracy in over 72 countries to date.

This section explains how the power distance dimension is theorised, and how it is observed that the KSA is probably a society which follows a strict hierarchy in its corporate sector, with individuals hardly ever breaking with tradition and interacting freely with subordinates belonging to a different cadre. Cross sectional input from lower level employees is probably something not encouraged since senior management probably has the tendency to feel insecure if an idea from a lower level employee is found to be actually effective towards increasing productivity and profits.

The uncertainty avoidance dimension proves that the working culture in the Saudi corporate landscape calls for a very strict and continuous adherence to set and prescribed rules and regulations. Western style concepts of employees taking the initiative to think-outside-of-the-

box towards resolving issues and problems is certainly frowned upon since management perhaps regards this to be a challenge to their perceived status and power.

From the individualism versus collectivism dimension and perspective, Saudi society is perceived and proven to be collective in nature, where the tribal head and family patriarch wields tremendous power and respect amongst his peers. In return for all the reverence, the head is a uniting factor and brings together all his disciples, followers, family and tribesmen providing them with an extended support structure which serves the people very well in times of frequent trials, tribulations and problems.

Finally, the section also examines the masculinity versus femininity dimension, and while explaining the concept in the opening lines, later goes on to explain how the theory has characterised Saudi society to be masculine. This has more to do with a societal structure which looks up to management being strict and forbearing on subordinates and which probably appreciates and expects the senior hierarchy in society to exhibit pomp and grandeur, unlike a society where politeness and maintaining a low profile is seen and considered a virtue rather than a weakness of the individual. While the fifth dimension of short and long-term orientation is explained and defined, Saudi society is not held up to scrutiny against this dimension since this dimension was not applicable to Middle Eastern society considering that the text of this dimension was drawn up for application more towards South East Asian economies.

5.5 Institutional Highlights

5.5.1 Institutionalised UK-Saudi Trade Partnership

The Saudi economy is suited towards exporters and investors since government policies are encouraging diversification from the traditional specialties of the petroleum and crude oil sectors. The Middle East Economic Digest (MEED) proves that indeed the KSA has the largest volume of on-going projects in the entire MENA region, having already started US\$50 billion projects in 2012 alone. As per MEED data, there are an additional US\$400 billion worth of initiatives already in the pipeline in such diversified sectors as water supplies, renewable energy, mining, petrochemicals, railways and power generation to name but a few.

Saudi-UK trade relations have been of great and mutual benefit to both economies, illustrated by the KSA being the UK's largest Middle Eastern trading counterpart. Existing UKTI data indicates that there has been increased trade volumes between both countries in 2012 with Saudi imports from the UK rising 6%, to £3.259 billion and a corresponding 42% for the UK, registering £1.57 billion (US\$1.5 billion) (Al Saud, 2013). The above figures are exclusive of Saudi imports in the services sector, or imports routed through UAE ports which would be a challenge to measure precisely. UK-Saudi trade relations have been mutually beneficial and have been consistent and progressive through the years, shown by the UK being the [eighth](#) largest investor in the KSA, having partnered in over 200 joint ventures with an estimated value of £11.5 billion in such diversified Saudi sectors as law, mining, the railways, water management etc. (Al Saud, 2013 and Jenkins, 2013).

Presently, British firms are actively engaged in manufacturing a range of projects in education, healthcare, infrastructure and the financial services sectors to name but a few (Jenkins, 2013). The Saudi Committee for International Trade (CIT) was established in 1983 as a body within the Council of Saudi Chambers (CSC), with the intention to foster and promote Saudi business interests on a worldwide basis and promote dialogue by projecting the Saudi perception on business issues. The UK Trade and Investment (UKTI) has successfully partnered with the CIT and they together exploring new opportunities.

Presently, the Saudi government is pursuing British investments in quite a few large scale projects, since the government is developing a strategy to diversify the economy and add in new economic zones instead of relying on the traditional oil and gas sector alone (Allurentis, 2013). While the overall Saudi investment climate and situation is certainly conducive to growth, security threats are an ever-present challenge. This is being handled by the appropriate agencies at the corresponding levels (Cowper-Coles, 2006).

This is some UK - KSA facts. Presently around 200 UK Saudi joint ventures, worth around £11.5 billion are in operation. The UK follows the USA in bringing in foreign investment in the KSA. 20,000 expatriate British citizens work and live in the KSA. The UK has been the preferred European tourist destination for Saudis, with over 100,000 visits per year and 14,000 Saudi students are studying in UK universities. There are around US\$129.7 billion worth of on-going construction projects in the KSA, the largest in volume within the Middle East.

Finally, six new cities are being constructed, with King Abdullah Economic City, the largest, itself equivalent to Hong Kong in size.

5.5.2 Possible Consequences of Progress

Clatanoff et al. (2006) have raised some concern over the possible negative impact of institutional elements that are deeply embedded in Saudi culture but are now relaxed in lieu of building a capitalist economy. Progress and development as a result of economic and commercial innovations are the typical institutional pressures permeating business, religion, society and politics the impact of which in most cases, still remains unpublished. Data is limited as the KSA government maintains a 'secretive' attitude or guarded behaviour.

On the other hand, the pressure to comply with WTO requirements has the propensity to create an atmosphere of 'doubt' or fragmented relationship between the state and business which could mean policy stalemate, although the KSA can also make up for rapid policy adjustment when there is focused external pressure (Hertog, 2010). It is also not too remote to consider that a miscalculated open policy could brew controversies over the issue of possible abuse of Saudi birth right – born of wealth and tremendous sense of entitlement which has been a serious problem in the Kingdom for a long time (Clatanoff et al., 2006).

5.5.3 Religio-sociopolitical System

The Saudi political system, socio-political structure and social fabric have evolved over the years through a close adherence to the tenets of Islam (SAGIA, 2006). Even the political rights of the Saudis are *Shari'ah* based, consisting of principles and ideas aimed at stabilising and consolidating the relationship between the ruler and the ruled (Alshamsi, 2011). By default, rather than by design, the *political system* is organised around the royal family as arch-distributors and is strictly hierarchical (Hertog, 2008).

For economic reforms to take root and be sustained, some measures of political reforms are necessary (Ramady, 2010). However, no clear political reforms are anywhere in sight while the state machinery suffers from incoherence and fragmented administration to the level of individual agencies creating a disjointed system with no institutional capacities and political

space for domestic negotiation (Hertog, 2008). Moreover, no clear coalition within the fragmented state has seemed to emerge either in favour or against these reforms which could lead to policy drift and stalemate (Hertog, 2010).

5.5.4 Saudisation of Employment

A Saudisation drive has been implemented with active support of the government, which is an effort to replace expatriate workers with local talent to every extent possible. This drive has been one of the cornerstones of the fourth development plan, and is intended as a solution to the issue of widespread unemployment among the local youth, and also to make the country less dependent on foreign workers. However, this drive has continued to be a factor in all subsequent policies, and the current ninth development plan has again emphasised this factor.

For practical reasons, the Saudisation drive has been disapproved by Achoui (2009) since it fails to take into consideration the dynamics of the access to affordable foreign workers, the development of human resources and hence the preference of private businesses to hire expatriate workers (Ramadi, 2005). Achoui (2009) emphasises that part of the repeated failure of the drive has been the private sector's reluctance in fully incorporating the parameters of the initiative in their hiring practices.

Progress in the private sector is reflected with the institutional development of affiliated and associated bodies. There are over 20 Chambers of Commerce and Industry and associations in the Saudi business sector. The Eighth Development Plan makes multiple recommendations towards resolving the current issues, including changes in the investment climate, making the private sector contribute more towards progress, encouraging the local population to participate in jobs, providing greater avenues to the private sector for guidance on trade and investment issues, and making women more active participants in the workforce (Ministry of Economy and Planning, 2009).

According to Ramady (2010), there are multiple reasons on the continued success of expatriate workers versus Saudi nationals, including the low cost of hiring expatriates, Saudis being reluctant to perform manual jobs, expatriates being more dependable in positions, and Saudis having English language proficiency issues and having less technical skills.

Ramady (2010), states that Saudisation is a potential institutional retardant of FDI as foreign firms may feel not only that Saudisation will put them at a disadvantage compared to their foreign competitors but also that, the whole Saudisation programme is by itself unpredictable. The already-felt impact of Saudisation had been responsible for the reduction of tax on profit on foreign companies from 40 percent to 20 percent (Ramady, 2010).

5.6 Summary

In summary, FDI is a complex topic. It is seen to be beneficial to the host country and investors despite the negative effects of FDI. In simple terms, FDI is the total capital that is given by an investor so that they can acquire the ownership of a certain property or business in a foreign country. It involves both transactions of capital and intangible assets such as knowledge and access to the global market. The OECD (Gestrin, 2016) and WTO (Hertog, 2008) makes it difficult for the implementation of this idea. Such a venture or investment is described as the willingness to participate in the management of a given entity which is the major distinguishing factor between FDI and other common foreign investments. For this reason, the FDI is described as an active investment where the investor takes part in the management of a given enterprise thus making it hard to withdraw from the host country. This means that the economic status of this country will also affect the entity.

To ensure maximum protection of the foreign investment, developed countries require a detailed definition of FDI. The developing ones support a relatively narrow definition in order to reduce their liberalisation obligations. The secret behind foreign investment is to maximise the profits of the investors. Aspects such as location, ownership, and the internalisation model are often used to determine if a certain company should invest. This model focuses more on the profits from location, ownership, and internalisation. More concentration is needed to determine whether the transparency of the economic and investment policies of the host country has an impact on FDI. Further, foreign investment is affected by protection rights of the intellectual property. The host country may obtain several benefits from FDI.

Ideally, such investment provides enough capital which is useful in the development of the economy of the host country. Also, the capital from FDI is debt free and stable due to the

involvement of several investors in the management of the entity. It brings about technological advancement where FDI has a lot of potential to break local monopolies and bring more local suppliers into the world economy which helps in expanding the customer base. The people in the host country benefit socially and economically where they become skilled with better training to provide labour services and high wages. This helps in improving infrastructure and development. On the other hand, FDI has some negative effects where competition from foreign companies can be stiff in such a way that it can put local firms out of business. Technological innovations and advancement may be affected resulting in an increase in inequality between the elite members and other groups in a society. Most of these problems can be avoided although there does not seem to be an effective national regulation policy to ensure the rules are followed. Thus, these aspects need to be examined in the case of the KSA.

Having said that, the most crucial section of this chapter is the discussion of the KSA past and present where the emphasis is on the willingness of the market to adapt to the ways of doing business specifically within the realm of FDI while holding steadfast to the religious tenets it adheres to as a nation. The significance of this adaptation is the overall appearance and belief that in order to provide for the country long term one must work with other nations and other sources of revenue and concessions must be made. What the KSA has done is demonstrated that change can take place while protecting their religious beliefs that are integral to every part of their culture, politics and economy.

Table 5.2 shows the reforms the KSA has made since 2006 to benefit FDI. These reforms demonstrate a willingness to address the negative determinants potentially holding back the interested companies from moving forward. While this is a positive move, the chapter also demonstrates more reforms and advancement where the KSA is not as forward thinking as required still exist. As the chapter demonstrates, the focus was on 2010 having the results placing the Kingdom in the world's top ten competitive investment destinations. To ensure that the Kingdom remains in the top ten and moves up within the list requires continued reforms, adaptations, and changes to the culture, political, and economic sectors of the KSA while remaining true to the nation.

Chapter 6 : Methodology

6.1 Introduction

This chapter provides a detailed outline of the research methodology that was used in this study. The chapter covers the research philosophy, research method, research design, and the procedure for both data collection and data analysis. According to Sarantakos (2005), the term methodology is described as a research decision that is used in a particular project inclusive of all the knowledge on the research subject and the framework employed. In this study, the idea was to take an acceptable empirical research approach to answer the research question and statistically test the hypotheses identified in the literature review

When choosing a suitable research methodology, it is critical for researcher to consider the specific research objectives. As described in Chapter One, the main aim of the study was to determine the key institutional factors that are being avoided, adapted, and valued by the British MNEs, which are currently operating under FDI arrangements in the KSA institutional environments. Therefore, it was necessary to examine the sentiments of the stakeholders and demographic factors. In doing so, it was possible to relate the demographic factors and the sentiments of the participants to gain crucial insights regarding the specific institutional factors covered in this study. Additionally, the study was undertaken to determine how multinational organisations perceive and adjust to fit and act together to initiate a change in a given environment.

The purpose of this chapter is to provide an understanding of the choice of methodology utilised in this study. The intent was to develop a research approach for testing the theoretical framework of the institutional factors, which are valued and adopted by MNEs from Britain. As part of justifying the methodology selected, the chapter discusses the research designs and approaches that other academics have used or certified as reliable empirical study approaches. For example, the issues of sampling methods, data collection and data collection instruments were critical areas that influenced the reliability and validity of the study. In brief, the discussion begins with the research theoretical framework followed by a discussion of the research question, and all the hypotheses covered in the study.

The research design is yet another crucial element covered in this chapter. It was necessary to discuss a theoretical justification for the research design to ensure that the findings, conclusion and the recommendations of the study are credible and therefore acceptable. Specifically, the

research design focused on the overall strategy chosen to integrate the different components of this study and address the specific research objectives in a logical and coherent manner. In doing so, it allows to link the specific objectives with the aim of the study.

This chapter also gives a detailed account of the ethical considerations followed while undertaking the research. The requirement was to follow the universally accepted code of ethics to protect the institution and participants involved in the study (MMU, 2017). The chapter concludes by giving a detailed account of the data analysis procedure undertaken to come up with the findings. In particular, the analysis involves a detailed account of descriptive statistics, correlation and logistics regression analysis of the factors under study. This ensures a quick and effective manner of addressing the research problem identified in this study. The design provides a blueprint as to how the study collected, measured and analysed the data collected (Kothari, 2004).

6.2 Research Paradigms

In any empirical study, choosing an appropriate research approach is a critical step since it can determine the success or failure of the research. The research approach acts as a guideline for data collection and analysis so that the researcher can draw valid and reliable conclusions from the resulting accurate findings. According to Fouche (1998), a research design is a detailed framework or plan of how the research will be conducted by outlining the variables, selecting possible samples for the study, data collection methods to be used in hypothesis testing and analyses of the results. In a literature review approach, the researcher has the chance to make decisions by using simple evaluation that has been done earlier (Cooper, 1989). In action research, the events are said to be more practitioner-based (Philips and Carr, 2010). All these types of methodological approaches are described as communities since each of the members involved shares similar backgrounds, research ideas and methodological orientations. These approaches have been linked with different research approaches as illustrated by Teddlie and Tashakkori (2010).

6.2.1 Research Philosophy

Before choosing the most suitable research method, it was necessary to identify an applicable research philosophy that matches with the research objectives and the hypotheses. In other

words, identifying an appropriate research philosophy shaped the assumptions made when choosing the participants, the sample size, and the procedures for data collection, and analysis. Academics have continued to typically employ qualitative, quantitative, or mixed research methods when conducting research. Each of these methods is supported by a particular philosophical underpinning that dictates the path that leads to collection and analysis of data.

A research philosophy is a systematic process through which data should be gathered, analysed and used. There are two major research philosophies, namely: positivist and interpretivist (Galliers, 1992). According to Levin (1988), positivists believe that real events are stable and exist from an objective point of view. They indicate that each phenomenon should be isolated and observations should be made. This process will involve tampering with the real events so that it is easier to identify any irregularities and form lasting relationships between different elements of the social world. History on positivism indicates that positivist knowledge is simply termed as scientific and thus invalid (Hirschheim, 1985). Similarly, positivism has had a successful relationship with physical and natural sciences. However, much thought has gone into whether or not the idea of positivism is suitable for social science (Hirschheim, 1985). Interpretivists indicate that reality can be fully understood through subjective interpretation only. The interpretivist philosophy dictates that the study of phenomena in their natural environment is vital in attaining successful results. Interpretivists acknowledge that many interpretations of reality may occur, but these interpretations are part of the scientific knowledge being studied.

6.2.1 Positivism and Quantitative Research

A quantitative approach involves the use of observations that are either controlled or structured (Punch, 2009). Most researchers are seen to apply both research approaches to build their understanding, especially when their studies involve the testing of hypotheses (Denzin, 2010). Tests that need to verify theories or identify the relationship between variables tend to employ the quantitative approach. The measurement is done numerically to provide statistical evidence to address the specific research question. As seen in the study, a quantitative approach adopts some assumptions that are known as positivist philosophy (Johnson and Onwuegbuzie, 2004).

6.2.2 Interpretivism and the Qualitative Research Method

According to Lichtman (2010), interpretivist research philosophy concentrates on understanding the meaning of different events to people and the entire world. To be precise,

interpretivists believe that studies tend to portray a world, where reality is complex and forever changing (Rudestam and Newton, 2001). This philosophical assumption is closely linked to the qualitative approach, which positions the researcher within the context of the very study that he or she is doing. Findings from the qualitative approach are normally based on human experiences as well as other stories that cannot be counted, measured or controlled (Cohen et al., 2007). In other words, the qualitative approach tends to bring personal values into the study by concentrating on the context of the participants.

6.2.3 Pragmatism and Mixed Methods

Pragmatism is yet another universally accepted research philosophy used in empirical studies (Guba and Lincoln, 1994). According to the Pragmatism Theory, a concept is acceptable if it supports an action or actions. Mostly importantly, pragmatists strongly believe that there are various approaches to interpreting the world; therefore, undertaking a research should also employ several approaches. Pragmatists accept both positivism and interpretivism, which are mutually exclusive research paradigms. Therefore, pragmatists indicate that both the qualitative and quantitative approaches can be used together depending on the research questions. For instance, one research question may require qualitative evidence while the next question may need statistical evidence. Hence, combining a qualitative and quantitative research approach provides the much-needed platform for addressing all the research questions satisfactorily.

According to Teddlie and Tashakkori (2010), pragmatism supports the belief that reality is constructed and the likelihood of knowledge deficiency. Therefore, as Johnson and Onwuegbuzie (2004) defined, the mixed method is the third approach that borrows the ideas of both qualitative and quantitative methods. In doing so, the researcher can tap into the merits of both approaches while at the same time minimising the disadvantages associated with either approach. Hence, the aim of using mixed-method research is not to replace the other approaches but to be guided by the strengths and reduce the weaknesses of both qualitative and quantitative approaches across all studies being carried out (Johnson and Onwuegbuzie, 2004). If an object is viewed in two dimensions then it is considered a mixed-method approach (Taylor, 2013). Merging of the two approaches (qualitative and quantitative methodologies) is a perfect choice since these methods bring the needed rigour and precision of experimental

research designs and quantitative data with a detailed understanding of the qualitative approach.

6.2.4 Research Approach

In line with the above research philosophies, Galliers (1992) and Alavi and Carlson (1992) identified several research methodologies. For instance, a hierarchical taxonomy containing three levels of research (Alavi and Carlson, 1992) and research methodologies based on positivism or interpretivist paradigms (Galliers, 1992).

Based on the above, the positivist approach was applied in this study in line with the research objectives mentioned on page 17, where deductive reasoning provides a method of investigating the inflows in order to predict favourable and unfavourable institutional factors. The information this study attempts to determine is which elements of the KSA deter FDI. The question this study asks is if the hypotheses demonstrate the current reasoning behind a company seeking to invest in the Kingdom, and to further determine if the determinants are strong or weak as it stands in the hypotheses. Determining if the deductive follow to implement changes and reforms in the FDI process as necessary.

Previous chapters discussed a number of theories providing support to the notion that numerous determinants exist causing the FDI inflows into a particular country. Searching to find the impact the OLI paradigm and the VoC theory has on the particular determinants assists a country to take action and to approach the reforms necessary to bring in more FDI. As such, the philosophy of this research is to examine what the KSA perspective is on FDI. By doing so, the aim is to understand what the main factors attracting FDI into the KSA are when considering investing in the country. This is directly related to the impression that other foreign investors might have when deciding whether to invest (or not) in a country, in this case the KSA. Since the country developed the 10x10 program to address the issues of increasing FDI by 2010. The question is now what benefit has the 10x10 program brought to bear and what more is needed to keep the nation at the same level or improve it in the future considering the changes in the global economy, one that is still in a transitional period of recovery since the 2008-2009 crisis.

How one articulates competing paradigms (Table: 1-6) of inquiry was extensively studied by Guba and Lincoln (1994). In their work, the authors highlighted the following categories which

guide a country, in this case to take action in relation to FDI attraction. Ontology is the first category to be discussed as it raises the most basic of questions about the nature of reality to be known (Guba and Lincoln, 1994). Based on this, the researcher is able to ask questions such as ‘what do I know about this subject?’ Further enquiry seeks the answers to ‘what do others know about this subject?’ Once this initial stage happens, it commonly moves on to ask *what is the perception of many interested individuals*, or in this case, countries and businesses about this issue. More specifically, how it directly affects foreign investors’ decisions to locate their businesses in the KSA.

Table 6-2: Four Paradigms Which Frame Research

Philosophical Characteristic	Positivism	Post-Positivism	Critical Theory	Constructivism / Interpretation
Ontology	Naive realism - ‘real’ reality but apprehendable	Critical realism - ‘real’ reality but only imperfectly and probabilistically apprehendable	Historical realism - virtual reality shaped by social, political, cultural, economic, ethnic, and gender values; crystallised over time	Relativism - local and specific constructed realities.
Epistemology	Dualist / objectivist; findings true	Modified dualist / objectivist; critical tradition / community; findings probably true	Transactional / subjectivist; value-mediated findings	Transactional / subjectivist; created findings
Methodology	Experimental / manipulative; verification of hypotheses; chiefly quantitative methods	Modified experimental / manipulative; critical multiplism; falsification of hypotheses; may include qualitative methods	Dialogic / dialectical	Hermeneutical / dialectical

Source: Guba and Lincoln (1994, p. 109)

6.2.5 Rationale for Choosing the Quantitative Approach

Recently, numerous studies have been undertaken on qualitative, quantitative, and mixed method approaches about institutional factors in different organizations. Some researchers have done a lot to measure the institutional factors using qualitative methods, whereas others have tried the quantitative methodologies (Sanders et al., 2007). Others went further still to research the institutional determinants within a mixed methodology approach. The researcher settled on the quantitative methodology approach because the information from questionnaires may not be adequate since the respondents may fail to give accurate information that would allow for precise inferences to be made on the findings (Denzin, 2010). In this study, the quantitative paradigm emerged as a superior research method as compared to the rest of the research approaches due to a number of reasons. Firstly, the research question required statistical evidence. With the quantitative study, it was possible to tailor the questionnaire questions in such a way that it facilitated statistical analysis. In particular, using closed-ended questions facilitated the statistical analysis of data. Secondly, the review of literature generated multiple hypotheses that needed to be tested statistically. Therefore, concentrating on quantifiable data was critical in facilitating hypothesis testing procedures. Thirdly, it was necessary to achieve a high confidence level while at the same time reducing the margin for error. With a quantitative approach, the researcher involved a large number of participants since dealing with quantitative data allowed for the use of the SPSS to analyse data from a large number of participants. The use of closed-ended questions, which is associated with the quantitative approach, made it possible to categorise data and analyse it using the SPSS. In contrast, the qualitative approach accommodates open-ended questions that cannot be entered in such software for analysis; therefore, the researcher is forced to work with a small number of participants by sorting and coding the data depending on the degree to which they appear similar or different.

6.3 Survey Strategy

According to Sanders et al. (2007), the survey strategy is used in this study since it allows the researcher to collect quantitative data and analyse it using descriptive and inferential statistics. Further, the survey method gives a sample representative of a given area of study and helps to look at a bigger number of variables than can be done through experiments (Galliers, 1992).

Based on the current research, in order to achieve the objectives of the study mentioned on page 17, a survey strategy in the form of a questionnaire was used to obtain the needed information on the institutional factors that are being adapted and valued by British MNEs currently operating under FDI arrangements in the KSA. This can be accessed through the link (<https://www.surveymonkey.com/r/CY6V6W6>).

The survey method used in the study is considered an economical method of data collection especially when dealing with a large number of respondents (Page and Mayer, 2000). According to Zikmund (2003), this method allows for correct quantification of information on the population. Similarly, according to Aaker et al. (2007), the survey method is used in dealing with sensitive matters. Furthermore, since information related to institution environments are considered to be sensitive issues and thus the use of a survey is valuable in information disclosure. In addition, as some questionnaires may be long, surveys can offer some degree of flexibility, thus allowing the respondents to save time in completing them (Aaker et al., 2007).

6.3.1 Steps in Survey Research

The study needed a design and planning strategy. According to Neuman (2006), the following layout works perfectly with the survey research.

- The researcher determines the type of survey through mail, telephone etc., the kind of respondents to take part in the study and the total population. Purposive sampling is employed in the process since it ensures that the researcher has the right sample to use in the study especially knowledge wise.
- Designing of research instruments or questionnaires. This involves questions to measure the variables, category of response, questionnaire layout etc.
- A system to record the answers.
- Carry out a pilot study on the instruments and offer training to interviewers if needs be.
- Outline the sample to be used in terms of target population, type of sample, sample size, sampling frame and select the sample for the research.

6.3.2 Incorporating the Research Philosophy

In line with the study's objectives mentioned on page 17, the philosophy best suited to achieve such objectives is the post-positivist philosophy based on which the researcher has developed six main hypotheses, as listed in Table 4.1 on page 121.

6.3.3 Research Question and Hypotheses

6.3.3.1 Research Question

Every research project starts with determining the objectives of the research. This involves having a clear idea of what the research expects to find through the literature review and the chosen methodology, in order to improve the current condition of an existing issue. Once the researcher defines the objectives of the study and researches the issue extensively, it is time to develop the research question and form the hypotheses. To recap, the objectives of this research already mentioned on page 17 are listed again below:

- 1 To determine the institutional factors which are valued and adapted by British MNEs.
- 2 To analyse how British MNEs perceive and adjust to the environment and obstacles within the environment in the KSA.
- 3 To determine the ability of the KSA in terms of attracting FDI and their institutional policies.

The research questions for this study follow the objectives by exploring the topic in greater specificity. The research question for this study:

1. What institutional and locational obstacles existing for the KSA would British MNEs tend to avoid?

6.3.3.2 Research Hypotheses

This study identifies six main hypotheses (Table 6-3) in order to examine the reasons to invest as well as reasons that prevented or could have prevented foreign investors' decision to locate

in the KSA. These hypotheses are already mentioned and listed in Chapter 4, but for convenience are presented again below.

Table 6-3: Research Hypotheses Table

Research Hypotheses Summary
<p>H1. There is a positive and significant relationship between Formal Institution Factors and FDI in The KSA.</p> <p>H1.1 There is a positive and significant relationship between Formal Institutional Avoidance Factors and FDI in the KSA.</p> <p>H1.2 There is a positive and significant relationship between Formal Institutional Adaptation Factors and FDI in the KSA.</p> <p>H1.3 There is a positive and significant relationship between Formal Institutional Co-evaluation Factors and FDI in the KSA.</p> <p>H2. There is a positive and significant relationship between Informal Institution Factors and FDI in the KSA.</p> <p>H2.1 There is a positive and significant relationship between informal Institutional Avoidance Factors and FDI in the KSA.</p> <p>H2.2 There is a positive and significant relationship between informal Institutional Adaptation Factors and FDI in the KSA.</p> <p>H2.3 There is a positive and significant relationship between informal Institutional Co-evaluation Factors and FDI in the KSA.</p>

6.4 Data Collection Methods

A quantitative research design methodology was used in the study. The methods that were applied in data collection process were, Total Design Methods (TDM) and Tailor Designed Method (TaDM) proposed by Dillman (1978, 2000). These methods were an approach that involve designing mail and online surveys whilst taking into account experience gained from analysing previous questionnaire and surveys.

When it comes to the research question, the major distinguishing factor from other types of questions is the fact that they help in solving the problem of poor wording making it clear and specific, thus the respondents feel that they are part of the sample contributing to the study. Polansky (1995) indicates that once the decision on whether to use a structured or unstructured questionnaire or interview guide has been made, the data obtained will be useful in determining the kind of instruments to be developed. The major difference between the different types of research instruments occurs when they are categorised as structured or unstructured. When a structured questionnaire is employed, all the questions are presented in a similar order, the respondents have similar choices, and instructions are fixed in such a way that the targeted respondent has no chance of seeking further clarification (Polansky, 1995). This format was deemed appropriate for both questionnaire formats and interviews.

6.4.1 Secondary Data

Nowadays, an enormous amount of data is being collected and archived by most researchers worldwide, thus the practicality and mode of utilising that secondary data for research purposes is becoming more prevalent (Andrews et al., 2012; Smith, 2008; Schutt, 2011; Smith et al., 2011). Analysis of secondary data for example is described as a technique of data collection where someone else collects data for a primary purpose. Utilisation of the existing data offers reliable options for researchers who may be limited to scarce resources and time constraints. Secondary analysis is described as an empirical procedure that uses similar basic research principles as that of primary data utilisation with various steps in place just as any other research method. Secondary data analysis is considered a flexible approach for that case; it can be used in various ways. Furthermore, it is seen as an empirical process that takes into account procedural and evaluative steps, such as those involved in primary data (Doolan and Froelicher, 2009). Analysis of secondary data analysis has been labelled as an under-used research methodology in many fields of research management. In addition, secondary data analysis is defined as a systematic research method due to its increased availability in research done by previous researchers on data collection techniques. However, there are few models available to guide the researchers as they analyse secondary data (Smith et al., 2011).

To begin with, most research work begins with an investigation covering what is already known and what is unknown in order to identify the research gap that should to be addressed (Creswell,

2003). This includes any supporting literature on the study but more focus must be directed to data collected previously on the topic of study (Dale et al., 1988; Doolan and Froelicher, 2009). Any available data that exists in the same area can be used in addressing the research question of the study. For the purpose of this research, an in-depth literature review was undertaken to examine the previous and current work done by several experts in the same field. Through the findings on the literature review, other conclusions were made while new research was discovered that was useful to the study.

In addition to the previous research, local informal networks can also be used to provide vital information in determining the type of research that is currently being used (Magee et al., 2006). This is relevant, especially for organisations in facilitating effective operational system. Original survey research hardly uses all the data collected in a given study, thus the unused data can be applied to provide reliable answers or different viewpoints to other questions or topics (Heaton, 2008; Smith, 2008). The main reason why existing survey data is effectively used is to find reliable answers to bridge the gap between the research questions and data collected (Magee et al., 2006; Kiecolt and Nathan, 1985; Doolan and Froelicher, 2009). In this study, the research question was found to fit well with previous works (Asiedu 2002 and 2005, Bénassy-Quere et al, 2007; Buchanan et al, 2012; Busse and Hefeker, 2007; Morrissey et al, 2012; Wernick, Haar et al., 2009; Yin et al., 2012), as these studies focused on institutional factors in different organisations. Collaboration of the researcher with the primary investigators made him aware that the data being collected addressed the research question. This data was adequate, but the researcher needed secondary data to make the data collection process effective. This decision was made to ensure that the existing survey data found the answers posed by the research question.

6.5 Instrument and Questionnaire Design

Total Design Methods (TDM) and the Tailor Designed Method (TaDM), as proposed by Dillman (1978, 2000), were used in this research. This type of instrument was chosen as it had unique characteristics of studying the target population and the effectiveness of the data collected. The TaDM (Dillman, 2000) is one of the designs that is used as a data collection method that involves the use of online surveys. In surveying, the main focus is placed on the main survey instrument and how it can be used as a survey sample. Similarly, the process involves defining the objectives of the survey, development of a sample frame and outlining a

viable strategy that can be used in data collection. A study conducted by Dillman, et al. (2014) provides a sample framework that can be used to conduct operational mail surveys and it has been proven to work in the past decade. The framework ensures that the process of conducting a survey is crucial so that the researcher can get the best response rates that will be useful in the acceptance of mail surveys in terms of research methodology.

According to Dillman (2004 and 2009), the important aspect in the TaDM is that the overall process of surveying is the key to success. Initially, this design suggests that the researcher should follow a given approach and consider all the key aspects of the survey design. Specifically, the TaDM suggests that the survey process should be part of a plan that involves social interaction between the survey respondent and the researcher. It should emphasise the importance of good communication of the survey process to the respondent. The questionnaire was developed in the English language and delivered to English speakers, because the CEOs of British MNEs have to speak English. Hence, the translation of the questionnaire into Arabic as the language of the place of study was not necessary.

6.5.1 The Instrument

Collecting data is essential in any number of fields, companies, educational and government institutions, health, and recreational endeavours. The manner in which one collects the data varies, but in this particular study, the discussion revolves around designing a survey. The process of designing a survey involves more than simply asking the most generic question about the topic at hand. One must understand the finer points of what questions to ask to obtain the responses that really answer the questions pertinent to the research objective. Dillman et al. (2014) investigated this topic extensively and updated their information as necessary to address the changes in society and how it chooses to communicate. One of the main reasons for using surveys is the fact that the sponsor has ‘interests that go much deeper, wanting to know not just how many individuals in a group have a particular attitude, but how that attitude varies with other respondent characteristics that will be asked in the survey’ (Dillman et al., 2014, p. 1). For the purpose of this study, this is exactly what the researcher is seeking to determine, namely not just to know how many individuals have a specific mindset, but specifically to shed light on the particular institutional factors that form their decision to pursue FDI in the KSA.

This study involved a probability sample group of institutions that participate in FDI in the KSA. It was possible to involve the entire target population, but the researcher had to sample a group of participants working for British MNEs operating in the KSA. The information identifying the 200 potential participants came from the Saudi British Trade Directory (SBTD). The researcher met Sir John Jenkins (British Ambassador to the Kingdom of the KSA), he provided the researcher with contact details of CEO's from British MNEs in the KSA. In particular, 103 respondents out of the 200 targeted represented in SBTD (SBTD, 2015). The population included top managers and CEO's from British MNEs in the KSA and the researcher selected a sample size equal to 200 (20 for pilot study and 180 for the main study) CEO's. In all, the response rate was 57%.

As this study sought information about a specific segment of the population and continued to narrow that segment down to British MNEs in the KSA to determine the institutional determinants of British MNEs' location decisions and impacts, the probability sample, undertaken in this study, allowed the researcher for a "close estimate of the distribution of characteristics in a population" (Dillman et al., 2014, p. 2). The target population for the study were CEO and top management of different British MNEs in the KSA who deal specifically with FDI issues.

Determining whom the target population consists of was critical in finding individuals who could give answers that addressed the research question. In this case, the CEO and top management have access to the information and are more likely to be accurate than staff members lower down in the hierarchy. In this case, the intent was to obtain the actual institutional factors as well as the demographic information of the MNE and parent company. A lower level employee is not likely to know all the investment details.

Asking questions to obtain information is only as valuable as the person's ability to answer the questions fully and with accurate knowledge. The questions need to extract the proper and necessary information from the people most likely to have the information or obtain access to the information. Understanding this necessity of finding the right portion of the population in addition to narrowing down the most likely to have access to the knowledge sought is as critical as asking the right questions. Throughout the entire process of conducting research and specifically building a questionnaire, one has to be aware of the issues of validity and reliability

throughout the process. Though validity and reliability is found in detail later in this chapter, it is essential to establish considerations early on in the process to ensure the results accurately describe the situation to the best of the researcher's ability. Identifying the proper target population including the best source of information increases the validity and reliability of the study.

6.5.2 The Questionnaire

The questionnaire (Appendix 3) was designed as follows: The first page (cover letter), which is an important section in motivating the participants to complete the questionnaire and building confidence and trust between researchers and participants, is important to increase the response rates (Dillman and Christian, 2005). In this page, the researcher introduce themselves, explains the expected benefits of the study and identifies the aim/aims of the research. In addition, it provides full contact details and the signature of the supervision team and researcher. Then, it is divided into two parts aimed at capturing certain demographic information and probing for initial opinion expressed on a five-point Likert scale of how certain terms frequently mentioned in the literature as factors important to FDI decisions are viewed as relevant, important or satisfactory.

The second page including the demographic component consists of 16 items. These items provided a general picture of the characteristics of FDI ventures of the responding firms such as mode of entry, industrial representation and the type/s of asset/s invested. In order to avoid legibility issues that can occur in self-administrated questionnaires, the demographic questions are closed-ended in nature, which limits the writing needed and they are easier to answer (Dillman and Christian, 2005). The FDI variable component (in Part 2) was a self-designed questionnaire based on variables mentioned in the literature above as potential factors affecting inward FDI decisions. These factors were nominated and clustered, each falling under any of the three categories: institutional avoidance, institutional adaptation and institutional co-evaluation factors. In the questionnaire, participants were asked to rate (as many as possible) these factors using a five-point Likert scale, which is commonly used in the questionnaires in many fields (Saunders et al., 2011) and provides enough recognition among levels of agreement, because of the use of extra points (8 or 9) on a Likert scale will increase the time needed for completing the survey (Saunders et al., 2011).

The questionnaire was made available in two formats: hard copy (printed and can be mailed), and online survey by subscribing to surveymonkey.com, an online survey platform. Results from all online responses are calculated by surveymonkey.com. Written results are hand calculated (in person) by the researcher upon receipt of responses, because the researcher wished to ensure that met the sample criteria. A list of names such as the company name together with contact names, numbers and email address of key persons were also involved. Others, (website addresses were included) were obtained from the SBTD. The companies were contacted through the key personnel identified in the SBTD list by phone and by email. A formal letter requesting for their participation was communicated through email or by hand.

Alternatively, all invitees were encouraged to exercise all available options when securing a copy of the questionnaire form, because some respondents prefer printed survey to hide their personal information and were apprehensive about viruses via online surveys. Others preferred the online survey because it was more convenient for them. Options offered were (a) filling out the printed version (delivered by hand, drop and collected), (b) completing the survey via surveymonkey.com. The questionnaire in this study was designed to be clear and visible and neither too long, nor too short. It is designed to be five pages. The researcher tries to control the length without reducing legibility because a balanced survey will motivate the respondents to complete it more readily. In general, the length of a questionnaire affects the response rate. Commonly a very short questionnaire can give the respondents a bad indication about the significance of the survey, whilst in contrast, respondents may discard a long questionnaire (Saunders et al., 2011).

6.5.3 Research Design Phases

This section describes the research design phases (Figure 6.1) undertaken in this work.

The first phase of the research thesis proposal included identifying and defining the problems and establishment of the objectives of the study and the development research plan.

The second phase included a summary of the comprehensive literature review. For instance, the literature on claim management was reviewed.

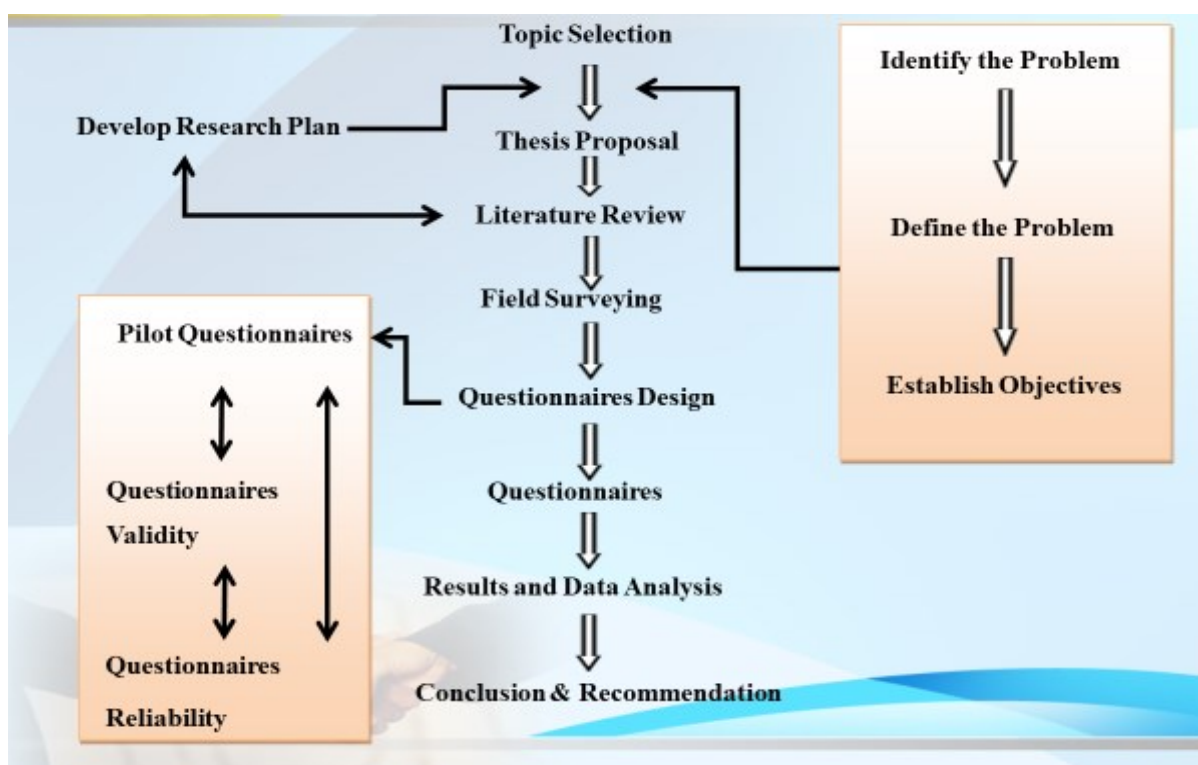
The third phase included a field survey aimed to identify the factors that affect location decision of British-owned MNEs in the KSA.

The fourth phase focused on the modification of the questionnaire design, through distributing the questionnaire to pilot study. The purpose of the pilot study was to test and this proved that the questionnaire questions were clear and concise to the reader, so that they could be answered in a way that helped to achieve the target of the study. The questionnaire was modified based on the results of the pilot study.

The fifth phase focused on distributing the questionnaire. This questionnaire was used to collect the required data in order to achieve the research objectives.

The sixth phase of the research was data analysis and discussion. Statistical Package for Social Sciences, (SPSS) was used to perform the required analysis. The final phase includes the conclusions and recommendations. 200 questionnaires were distributed to the research population and 103 questionnaires were received.

Figure 6-1: Methodology Flowchart



Source: Author

6.6 Validity and Reliability of the Study

A research instrument is considered valid if it can measure what it is meant to measure and achieve the exact purpose it was designed to (Wallen and Fraenkel, 2001; Patten, 2004; Pallant, 2013). According to Patten (2004), validity is termed as a certain degree and the explanation involved must focus on the validity of a given test. He indicates that no single test instrument is valid perfectly. This means that the researcher has to declare some assurance that the research instrument being used provides accurate conclusions (Wallen and Fraenkel, 2001). Validity of a study involves the usefulness, meaningfulness and appropriateness of inferences that are made by the researcher depending on the collected data (Wallen and Fraenkel 2001). The validity of a given study can be termed as judgmental. Patten (2004) indicates that content validity can be determined by simple judgments made on the suitability of the research instruments. He identifies three important principles that are used in improving content validity as follows: emphasis on the important material, use of a large sample of content instead of a small one and writing different questions to measure the appropriate skill. These principles were included when writing survey items. The researcher followed three steps to evaluate the content validity in this research. First, in order to make any modifications required and test the instrument of the questionnaire, a pilot study was conducted (Chidlow, 2009). Second, the researcher's supervision team reviewed the questionnaire instrument. Finally, a wide literature review was conducted to improve the items within the questionnaire.

According to Patten (2004), validity is termed as a crucial aspect when compared to reliability. Nonetheless, according to previous research, reliability needs not be addressed at all times. Reliability is seen to relate more to the consistency of the data collected (Wallen and Fraenkel, 2001). The research used Cronbach's coefficient alpha to define the internal reliability of the research instrument. Reliability of data is denoted as the magnitude to which a measure is consistent, thus it can be concluded that the Cronbach alpha is a way of determining the strength of reliability. It is determined by comparing the score of each scale item with the total score for each observation, which in most cases, usually comprises survey respondents and then comparing that to the variance for all the individual item scores. The value alpha can fall between negative infinity and one, thus implying thus implying. However, in the interpretation, only the positive value makes sense, thus researchers usually use a range of 0 to 1 to describe the reliability of the factors under study (Hancock and Mueller, 2010).

6.7 Population and Sampling

6.7.1 Population

According to Burns and Grove (1993), a population is defined as all elements such as individuals, objects and events that meet the requirements of sample criteria in a given study. The target population for the study was top management of British MNEs in the KSA. This included the CEOs of different British MNEs in the KSA dealing with the FDI. The total population consisted of 200 British Joint ventures, with a sample response of 103 people. The selection of an official and reliable source of information to identify British Joint ventures also needed to be considered. The source selected was the SBTD (2015). Having checked the website, all the British Joint ventures were identified.

6.7.2 Sampling

According to Polansky (1995), a sample is a group of subjects i.e. people or individuals that are selected from a larger group. Sampling is considered a very powerful research tool. Quantitative research is known to limit its responses to a particular category with the help of standardised questions. For this reason, quantitative researchers can measure the actual reactions of the participants which can increase the efficiency of the data collected. On the other hand, qualitative studies allow the inquiry of some few selected cases with keen attention to details and context.

In the process of defining the sample size to choose, the researcher in the study employed probability sampling which is denoted as a non-profitability technique used to collect data from a given population,. The sole aim of employing the sampling technique was to ensure that the sample size used in the study was knowledgeable, as this would play a significant role in enhancing the quality of the research conducted. Another advantage of employing purposive sampling was that the researcher would consume less time in conducting the study, since only suitable individuals would be used in the study. In defining an effective sample size for the study, the researcher gathered and investigated the list of names to be considered in conducting the study from the SBTD (2015). The researcher was able to gather details of key persons from different MNEs, which included company name, contacts, email addresses, and mobile phones of the CEOs.

6.7.3 The Code of Ethics

The researcher considered ethical guidelines (MMU, 2017) so as not to breach any set regulations which could compromise the validity, credibility and reliability of the whole study. First, he sought the necessary authorisation to conduct the research for the relevant authorities. He also enquired with officials operating the SBTD whether it was acceptable to draw names of company officials from the book in order to use them in his research study. The research adhered to all the procedures and protocols required while conducting a research study, especially those linked to anonymity and confidentiality of the participants. The researcher assured the participants that the information they gave would not be used for any other purpose other than the conduction of the research study. He ensured that all loopholes that could lead to leakage of participants' information were covered thus increasing trust and boosting participation in the study.

Upholding ethics in the research is critical as it assures respondents involved that the study they are undertaking is authentic thus giving them confidence to participate in it. The first ethical obligation was to obtain authorisation from the relevant authorities to conduct the research. Obtaining authorisation is advantageous since it allows the researcher to obtain guidance on how the study ought to be conducted. There were some issues that the researcher had to ensure were guaranteed as breaching them would have had legal ramifications. They include consent, confidentiality, and debriefing, protection of the respondents and withdrawal of participation by the respondents. Each of the issues is discussed separately as follows. These measures were in line with the university's code of ethics.

6.7.3.1 Consent

Each participant had the option to complete the written or online survey if they chose. Seeking a participant's approval before undertaking the study would guarantee that the responses they give are of good quality since they are fully aware of the existence of the study and the importance of participating in the study. Written consent to participate was not gathered before sending the surveys but informing the participants by email that the survey was optional was carried out. If the participant did not agree to complete the survey online, in person interviews were scheduled with the individual via mobile phone thereby granting expressed consent.

6.7.3.2 Confidentiality

The questionnaire asked specific information regarding the demographics of the company, but did not ask the participant to identify the company or their role in the company to allow for an anonymous response. The information obtained from the respondents remained anonymous throughout the process of this study and every attempt to convey to the participants the level of confidentiality was made. The information collected for the study remained solely for the use of the study and was not subject to sharing in any manner. Only the researcher had access to the data and it was secured until the completion of the study when all surveys; paper, electronic and online would be destroyed. The researcher had to assure the participants that the information collected would not be used for any other purpose other than meeting the objectives of the study.

Contact information was shared with the participants to enable them to contact the researcher to answer any questions, withdraw from the study, or to gain otherwise needed reassurance that their information and participation would not bring harm to them or their organisation. The welfare of the respondents was assured in that that the researcher would not, in any given instance, share the information of the employees of the organisation considered in the study with anyone. Doing so would affect some employees adversely thus the researcher had to assure the participants that the information would only be used for the study and their status would remain anonymous.

6.7.3.3 Debriefing

A verbal debriefing in person or via mobile phone occurred for online or hand administered surveys, when any potential participants asked for more information regarding the purpose of this study, because some of them wished to be sure about the researcher and the study not being linked to or from the Saudi government. The same information was shared in 'written' format via email or online formats to ensure they understood the purpose of the study. Doing so ensured that the participants had a vast understanding of the essence of undertaking the research and thus it enabled them to participate in the research effectively. Debriefing also played a significant role in developing a positive relationship between the participants and the researcher

since it made the respondents feel valued thus increasing their willingness to participate in the study.

6.7.3.4 Withdrawal from Participation

All participants received information on multiple occasions that their participation was voluntary and that they could withdraw from the study at any time. The researchers contact information was shared with the participants in order for the participants to inform of their decision to withdraw from the study. It is against the law to force individuals to undertake a study. Unwilling participants undermine the quality of the research since the responses they give are not reliable since they are biased in most cases.

6.8 Data collection procedure

In line with Dilman (2000), this section describes the data collection procedures undertaken by the researcher in order to collect the necessary data so that the research objectives mentioned on page 17 are met.

6.8.1 Pilot Study

The pilot study is termed as the base for any research. The main purpose of pilot-testing was to assess the clarity of the research instruments, the validity and reliability of every item that was included in the questionnaire and interview guide. Further, pilot testing would help in establishing whether the wording used in the instruments would bring out the desired information (Mulsa, 1988). Questionnaires were thoroughly pilot-tested by the supervisory team before being released to uncover any possibility of confusion, such as incorrect questions that could result into invalid responses. In this study, the pilot took 25 days to be completed, running from 10 January 2015 to 05 February 2015. A total of 20 questionnaires were issued to CEOs working in different British MNEs in the KSA, to verify their feasibility and compliance with the study's objectives. The pilot study took the following steps to test the questionnaires. The process followed a defined process namely development of questions, testing and pilot analysis.

The questions were based on the questions used from the pilot study. Twenty questionnaires were issued to CEOs who were clearly informed that they were compiled for the purpose of this survey. Their feedback was used to modify and develop some questions and improve the questionnaire formatting, layout and clarity. In this pilot study, 40 surveys were distributed both by hand (drop and collect) and by email, because in the KSA post is not very common and therefore not particularly reliable as a means of communication. 20 surveys were distributed by hand and 20 surveys were sent by email. In all, 20 surveys were completed, 6 were received back by hand and 14 by email. The feedback received about the survey related to the length and the time needed to complete the questionnaire. The total number of questions was reduced to make a total of four pages instead of six and the time reduced from 20 to 15 minutes to complete. This analysis ensured that the survey process would fulfil the aims of the research and produce valuable data that would be used for the overall study. After the analysis was conducted, the researcher made the necessary changes and adjustments. This enabled the respondents to make exact judgement based on their opinion to the questions in order to enhance the survey formatting, clarity and layout. Following this, the researcher issued the final draft of the survey instrument.

6.8.2 Main Study

The time taken to undertake the main data collection took approximately four months. It was conducted between 5th January 2015 and 5th May 2015 and entailed both the hand and online (email) mode. The hand mode employed the drop and collect technique. In the online phase, the list from the SBTD comprised more than two hundred MNEs who had registered in SAGIA. The researcher sent questionnaires to all the email addresses of all the participants. The researcher in the study realised that for the participants in the study to participate, they have to be motivated and thus was prompted to employ some electronic mail survey techniques as highlighted by Dillman et al. (2009) and Chidlow (2009).

The first step entailed sending a pre-notice email to 150 respondents and to the CEOs of the British MNEs. The sole purpose of doing so was to make known the researcher's intentions to conduct a study on the contact list thus increasing the response rate of the research by familiarising oneself with the participants of the study before issuing of the questionnaire. Doing this enhances the quality of the responses since the participants of the research are aware

of the person conducting the study and are assured of their confidentiality thus increasing their willingness to participate in the study. Sending the pre-notice email was important, as it was confirmation that the study was being conducted on the right individuals based on the response received from the emails sent (See Appendix 4). The researcher assured the participants of the confidentiality having sent individual emails to each one of them. The response rate of the participants to the pre-notice sent to them was low since only thirty-three of the purposed participants agreed to participate in the study. The researcher found it ideal to send the questionnaire link to all the participants shortlisted in the contact list to boost the response rate and save time.

Having sent the questionnaire link to the purposed participants in the SBTB, the researcher then sent a covering email, which contained concrete explanations of the major objectives of the importance of the current research. The covering email also comprised the web questionnaire and various tips to encourage participation as well as voluntary work for the surrounding community (See Appendix 5). The researcher sent an email thanking all the participants who had completed filling the questionnaire. He also encouraged and reminded those who had not accomplished the task to do so. The researcher explained to the participants the essence of participating in the study explaining to them how simple the process was, since it was not too onerous or time consuming. He asserted that the process only required fifteen minutes to accomplish. After sending the email, the response rate increased by 8% from forty-five questionnaires to fifty-nine questionnaires. From the response rate, it is prudent to conclude that motivating the respondents has a significant impact on how they respond to a study. The researcher later sent a thank you email to the remaining participants after filling the questionnaire as expected, acknowledging their efforts, time and cooperation the whole time (See Appendix 6).

The online survey mode employed in the study was dynamic, because it was used two data collection methods. Reaching out to the expected participants via emails assured the persons that the information they would provide would be kept confidential and anonymous. The researcher assured the respondents that their names or that of the organisation they are affiliated with would not be mentioned in the analysis and compilation of the final report thus increasing the quality of the research. To obtain trust and participant confidence, the researcher attached an electronic signature, which contained the researcher's name, address, telephone number and

email address. Doing so proved the authenticity of the research. The researcher decided to send a pre-notice email first then the web link to the participants since doing the opposite would have reduced the number of persons undertaking the research. He gained participant trust and confidence by sending the pre-notice email. The reminder email sent to the persons after fifteen days played a vital role in boosting the participation of the study since the person felt valued and appreciated thus increasing their response.

The researcher also distributed 50 questionnaires by hand, by visiting the participants physically and giving them the questionnaires in person, then returning later to collect the completed questionnaires. In the process of distributing the questionnaire, eighty one participants who were asked to undertake the study agreed to participate in the online study and gave their email address to be sent a link to the questionnaire and twenty two agreed to participate via the hand mode process. The total number of persons who participated in the study was 112, all of whom were drawn from different channels of distribution. However, nine responses did not meet the research criteria and thus were excluded from the research. The reason for their exclusion was their poor response to the profit question. Out of the 112 responses collected, only 103 responses were used for analysis (20 for pilot study and 180 the main study). This forms 57% of the questionnaires used in the study. Table 6.3 below shows the response rate of the participants to the study conducted.

Table 6-4: Response Rate for the Data Collection

Action / Mode	Online	By Hand	Total
Number of questionnaires distributed	150	30	180
No. of responses	88	30	118
No. of questionnaires rejected	7	8	15
No. of questionnaires accepted	81	22	103
The response rate from each mode	54%	44%	
The response rate compared with the total questionnaires distributed	79%	21%	100%
The total response rate	57%		

6.9 Data Analysis

The researcher completed the data analysis using SPSS (SPSS), version 24. The analysis started by running Descriptive Statistics - Frequencies which produced the results of mean, median, and mode. Consistency was observed among all variables though some variables were noted to be missing - those between eight and ten. This allowed for cleaning of the data to ascertain the surveys that were incomplete. Descriptive statistics allows the researcher to obtain a general understanding of the variables in used in this study. The major feature of descriptive statistics that differentiates it from other types of statistical data is that it gives a clear presentation of quantitative data in a manageable form. The descriptive statistics in the study demonstrated the answer to the research question, which is 'to determine the institutional factors which are valued and adapted by British MNEs'. A logit regression was performed to address the research question by identifying the institutional factors that influence FDI inflows in the KSA. The hypotheses of the study were then tested through a discussion of the results. For the study conducted, the qualitative analysis conducted was limited because of the number of open ended questions present in the questionnaire. The data analysis followed a defined order as follows: preparation of the data, classification of the data, response rate and none response rate bias analysis, checking for validity and reliability and finally the analysis of data.

6.9.1 Data Preparation

Before beginning the data analysis, data preparation occurred. The editing, coding, capturing and cleaning of data took place. The respondents' number reduced from 112 to 103, because questionnaires were provided without completed answers regarding the profit questions, so those respondents were excluded from the study. The researcher employed the case-wise deletion measure to enable all analysis occurred with the same cases. The sole aim of employing the case-wise deletion measure is to obtain a true correlation matrix where all associations are from the same set of data.

Before the descriptive analysis the researcher removed the errors by completing the cleaning of the data through an evaluation of the separate factors. Additionally, the researcher considered the missing data before starting the analysis. Dealing with the missing data was conducted via the SPSS programme because it provides various methods (Pallant, 2013). For

example, if one factor or more was missed the SPSS programme would exclude it from the analysis. Also, the mean option would be used if a specific answer was missed. In this study, these represent the reasons why nine of the surveys were excluded from the analysis.

6.9.2 Data Classification

All respondents in this study identify as British MNEs in the KSA. The researcher coded the categories of responses in three main areas, namely: Institutional avoidance, institutional Adaptation, institutional co-evaluation. The categories were listed on the questionnaire provided to the participants, which allowed the data to fall easily into these three categories. The participants were asked to rate their agreement with each of the three categories. For Institutional Avoidance Factors the response choices included 0 – not sure, 1 - very dissatisfied, 2 - dissatisfied, 3 - satisfied, 4 - very satisfied. Section two, which asked about Institutional Adaptation Factors provided options of 0 - not sure, 1 - very irrelevant, 2 - irrelevant, 3 - important, 4, very important. The last category Institutional Co-Evaluation Factors used 0 - not sure, 1 - very irrelevant, 2 - irrelevant, 3 - important, 4, very important.

6.9.3 Non-Response Bias

Non-response bias is a common problem encountered when using the surveying technique. Non-response can lead to an error in the survey, and therefore the researcher employed multiple methods (online and hard copy) of taking the survey, thereby increasing the opportunity to complete the survey in a manner best fitting the respondent's preference. Any responses that arrived after the deadline listed for the survey were considered late-responses rather than non-responses and their outcomes were entered in the online survey database. Comparing the late responses to the early responses of the questionnaire showed no significant difference thus implying that the respondents responded to the questionnaire effectively, the only difference being the time taken to provide the relevant data.

In this study, after the first mailing of the survey 15 responses were received. A total of 19 were received after subsequent reminders were sent out. In these two groups, to know whether there were significant differences in the response ratings, an independent t-test was conducted.

The results showed there were no significant differences between these two groups. Hence, there is no evidence of non-response bias.

6.9.4 Descriptive Statistics

According to Parasuraman et al. (2005), analysing a data set by using sophisticated statistical techniques allows a researcher to get a comprehensive understanding of what the data entails thus enabling him or her to make concrete conclusions. It also enables the researcher to make the right recommendations based on the research problem since the sample size selected acts as a representation of a large population affected by the research problem under study. The researcher is also able to draw suggestions for further studies after analysing the data effectively. Before reviewing the data in this study, the researcher used descriptive statistical techniques to inspect the data before testing the research question. According to Parasuraman et al. (2005), the conversion of raw data, which entails numbers and words in a form that is easy to comprehend, plays a significant role in presentation of the data. A researcher concludes to have data without manipulation if he or she after comprehensive analysis of the individual variables, determines the characteristics of the variables in an objective manner. The descriptive characteristics of the study's sample data include the following factors: (a) demographic characteristics of the businesses, (b) institutional avoidance factors, (c) institutional adaptation factors and (d) institutional co-evaluation factors. These were discussed in details in section 6.7.

6.11 Summary

In this chapter, a detailed explanation of the research paradigm, philosophy and methodology is presented. As seen in the study, a quantitative research methodology has been shown to be necessary in order to achieve the study's aim. As such, this chapter provides in detail the methodology of the research and outlines the process of data collection in order to obtain a reliable and valid information. The positivism research philosophy shaped the research approach by justifying the decisions and assumptions made in executing the methodology. It is also important to note how the research question informed the research method and design used, the participants involved, and data collection and analysis procedures. When conducting an empirical study, the measures taken to achieve validity and reliability determine whether

other peers will accept the outcome and incorporate it into the existing body of knowledge or use it in their studies. Therefore, the measures taken to achieve both validity and reliability are of great importance. Similarly, observing the code of ethics has provided much-needed justification for this study.

In the next section of this paper, the focus shifts to the implementation of the data collected and its analysis, therefore outlining the presentation and interpretation of the results.

Chapter 7 : Results and Analysis

7.1 Introduction

This chapter examines the data analysis procedures and the resulting outcomes after strictly following the procedure highlighted in Chapter 6. The results are based on the survey involving 103 respondents who agreed to participate in this study. This chapter is organised based on the answers provided by respondents to each of the questions presented in the questionnaire. Therefore, the chapter begins with the descriptive analysis of the independent variables. In particular, the SPSS facilitates descriptive analysis of the information on the company and the participants' demographics. The researcher examined the independent variables to determine their representation. In doing so, the researcher was able to identify the representation of groups or categories before proceeding with the analysis of the relationship between the independent and dependent variables. For instance, the descriptive analysis of the sector or industry within which the companies operated provided crucial insights into whether all the sectors were sufficiently represented to facilitate the comparison of outcome by sector. This chapter is divided into three sections. The first section focuses on the descriptive analysis of the demographic information of participants. The second presents the statistical analysis of the dependent variables in relation to the independent variables. The comparison of means, correctional and regression analysis provided the much-needed platform for determining how the responses of the participants differed depending on their nationality, the sector in which their companies operate, the number of years that their companies have been operating in the KSA, and other factors. The testing of the null hypothesis is presented in the final section to determine whether it has been accepted or rejected, based on the inferential evidence provided by the findings of the study.

7.2 Descriptive Analysis of Demographic and Background Information

This section provides respondents' demographic and background details.

7.2.1 Company's Years of Operation

The findings indicated that most of the companies had more than 10 years of experience. Table 7.1 demonstrates that 4 companies have been in operation from "5 to 10 years" representing 3.9 % of the total and 99 companies for "over 10 years" allowing for 96.1 % of the total. There were no companies that have been in operation for less than five years among those that were included in this study.

Table 7-1: Descriptive Analysis of the Company's Age

How old is your parent company?	Frequency	Percentages
5 to 10 years	4	3.9
Over 10 years	99	96.1
Total	103	100.0

7.2.2 Company's Country of Origin

The parent company's nationality was divided into two that included 'Saudi' and "non-Saudi". The majority of the companies fell under the non-Saudi category. As demonstrated in Table 7.2, 5 companies were noted to be of Saudi origin, accounting for 4.9 % of the total, with 98 of 'non-Saudi' origin, which represented 95.1 % of the total number of companies that responded to the questionnaire.

Table 7-2: Descriptive Analysis of Company's Country of Origin

What is your parent company's nationality?	Frequency	Percentages
Saudi	5	4.9
non-Saudi	98	95.1
Total	103	100.0

7.2.3 Participants' Job Position

The participants were asked about their position in the businesses because this information was necessary when measuring the factors associated with the business performance of the managers or CEOs. Three different categories representing job position were used including CEO, Manager and other with the majority being managers. As outlined in Table 7.3, 24 of the participants were CEOs, representing 23.3 % of the total, while 79 were managers, representing, and 76.7 % of the total number of study participants.

Table 7-3: Descriptive Analysis on Participants' Job Position

What is your position in this company?	Frequency	Percentages
CEO	24	23.3
Manager	79	76.7
Total	103	100.0

7.2.4 Participants' Nationality

The majority of the participants reported that they were non-Saudi, representing 68.0 % of the 103 respondents (Table 7.4). The Saudi participants represented 32.0 % of the sample. There were 70 responses from non-Saudi respondents and 33 from Saudi respondents. The findings are a true representation of the phenomenon considering most of the companies are foreign-owned, with the top positions mostly being occupied by individuals from the parent nations of the enterprise.

Table 7-4: Descriptive Analysis on Participants' Nationality

What is your nationality?	Frequency	Percentages
Saudi	33.0	32.0
non-Saudi	70.0	68.0
Total	103.0	100.0

7.2.5 Company' Mode of Market Entry

It was important to collect data on the mode of entry into the international market which is fundamentally the mode the company employed to gain entry into the Saudi market. Five options were provided including equity joint venture, wholly-owned subsidiary, merger and/or acquisition, strategic alliance, licensing, and reinvestment of profits. According to Table 7.5 equity joint venture was ranked first with 86.9 %, wholly-owned subsidiary second with 5.6 %, merger and/or acquisition third with 3.7 %, strategic alliance fourth with 2.8% while licensing was fifth accounting for 0.9 % of the total. No company had used reinvestment of profits as a mode of market entry among those interviewed. Out of 103 companies, 89 had employed equity joint venture, 6 wholly-owned subsidiaries, 4 mergers and/or acquisition, 3 strategic alliances, and 1 licensing as the mode of market entry.

Table 7-5: Descriptive Analysis of the Company's Mode of Market Entry

Which of the following would best describe your company's mode of market entry?	Frequency	Percentages
Equity joint venture	89	86.9
Wholly-owned subsidiary	6	5.6
Merger and/or acquisition	4	3.7
Strategic alliance	3	2.8
Licensing	1	0.9
Total	103	100.0

7.2.6 Company by Sector

The researcher was also interested in determining the sector within which the company operated, so as to gain a better understanding of the sectors that were highly favoured by foreign enterprises. From the findings, the top three sectors included Chemical and Petroleum, Mining, Oil and Gas, and Electricity, Gas and Water Supply representing 18.4 %, 16.5 % and 12.6 % respectively (Table 7.6). Real Estate came in fourth position with 9.7 %, while the Contracting and Financial Services and Insurance sector followed closely with 8.7 % each. Transport, Storage and Communication, and service sectors each represented 7.8 %, with Trade

representing 6.8 % and other sectors 2.9 % (Table 7.6). Among the 103 companies that responded to the questionnaire, 19 were in the Chemical and Petroleum Sector, 17 in the Mining, Oil, and Gas, 13 in the Electricity, Gas and Water supply, 10 in Real Estate, 9 in Contracting, 9 in Finance Service and Insurance, 8 in Transport, Storage and Communication, 8 in Service, while 3 were in other companies.

Table 7-6: Descriptive Analysis of the Company by Sector

Which sector does your company operate in?	Frequency	Percentages
Chemical & Petrochemical	19	18.4
Mining, Oil & Gas	17	16.5
Electricity, Gas & Water Supply	13	12.6
Transport, Storage & Communications	8	7.8
Real Estate (Property)	10	9.7
Contracting	9	8.7
Finance Services & Insurance	9	8.7
Trade	7	6.8
Service	8	7.8
Other industry	3	2.9
Total	103	100.0

7.2.7 Company Length of Stay in the KSA

The researcher also sought to determine the number of years the enterprises had been doing business in the KSA. Four categories were used including < 3 years, 3 to 5 years, 6 to 10 years and >10 years. As demonstrated in Table 7.7, 3.9% had been in operation in the KSA for < 3 years, 43.7 % from 3 to 5 years, 44.7 % from 6 to 10 years and 7.8 >10 years.” Among the 103 companies that responded to the interview, 46 had been operating in the KSA for 6 to 10 years, 45 for 3 to 5 years, 8 for >10 years and 4 < 3 years. The findings indicate that most of the companies have been in operation in the KSA for around 3 to 10 years, demonstrating a broad spread from relatively new to seasoned companies.

Table 7-7: Descriptive Analysis of the Company Length of Stay in the KSA

How long has your company been doing business in The KSA?	Frequency	Percentages
< 3 years	4	3.9
3 to 5 years	45	43.7
6 to 10 years	46	44.7
>10 years	8	7.8
Total	103	100.0

7.2.8 Company Headquarters in the KSA

This paragraph provides details about the exact location of the company's headquarters in the KSA. The objective was to determine the location that was most attractive for the foreign companies. The options provided included North, South, East, West, and Central regions. The Central region in the KSA boasted the highest number of companies representing 49.5 % of the total number of companies that responded to the questionnaires, the East region followed with 35.0 % while the West region accounted 15.5 % (Table 7.8). The findings also show that no companies that took part in the study had their headquarters located in the Southern or Northern part of the KSA. From the findings, it is clear that the Central part of the KSA was the most preferred for establishment of the companies' headquarters while the Southern and Northern areas were the least preferred.

Table 7-8: Descriptive Analysis of the Companies' Headquarters in the KSA

Which part of the KSA is your company headquarters located in?	Frequency	Percentages
East region	36	35.0
West region	16	15.5
Central region	51	49.5
Total	103	100.0

7.2.9 Obstacles Due to Geographical Proximity

Information on the presence of any geographical proximity between the parent company and the respondent's office was also collected. This information is significant because it puts into perspective some challenges that these companies face particularly regarding the issues of geographical proximity. As demonstrated in Table 7.9, a bigger percentage of the respondents indicated that they did not experience any obstacles representing 52.4 % of the total, 44.7 % of the participants provided that they experienced obstacles while 2.9 % responded by indicating that they were not sure. From the 103 companies that responded to the questionnaires, 54 indicated that they did not experience any obstacles, 46 experienced obstacles while 3 were not sure. The findings indicate that there are numerous obstacles when it comes to geographical proximity between the parent company and the office that should not be ignored.

Table 7-9: Descriptive Analysis of the Obstacles due to Geographical Proximity

Have you faced any obstacle (s) when it came to geographical proximity between the parent company and your office?	Frequency	Percentages
Yes	46	44.7
No	54	52.4
Not sure	3	2.9
Total	103	100.0

7.2.10 Companies by Number of Employment Sites

Data on the number of information sites was also collected and the researcher asked the respondents if they had more than one employment site and provided three options to choose from including "yes", "no" and "not sure". According to Table 7.10, most of the respondents did not have more than one employment site, representing 76.7 % of the total, while 21.4 % reported that they had more than one employment site and 1.9 % were not sure. Among the 103 companies that responded to the questionnaires, 79 companies provided that they did not have more than one employment site, 22 stated that they had more than one employment site, while 2 indicated that they were not sure.

Table 7-10: Descriptive Analysis of the Number of Employment Sites That Companies Have.

Does your company have more than one employment site?	Frequency	Percentages
Yes	22	21.4
No	79	76.7
Not sure	2	1.9
Total	103	100.0

7.2.11 Companies by Number of Employees

As demonstrated in Table 7.11, most of the companies that responded to the questionnaires had between 200 and 499 employees and represented 37.9 % of the total. Those with 50 to 99 employees came in second with 21.4 %, those between 100 and 199 with 20.4%, those between 10 and 49 with 11.7 % and those with 500 or more employees represented 8.7 % of the total. Out of the 103 companies that responded to the questionnaire, 39 provided that they had between 200 and 499 employees, 22 had between 50 and 99, 21 had between 10 and 49, while 9 had 500 or more employees. These findings indicated that a large number of the sample included small to medium-sized companies while the number of large organization was significantly low.

Table 7-11: Descriptive Analysis of Companies by the Number of Employees

How many people does your company employ?	Frequency	Percentages
10 to 49	12	11.7
50 to 99	22	21.4
100 to 199	21	20.4
200 to 499	39	37.9
500 or more	9	8.7
Total	103	100.0

7.2.12 Company by the Percentage of Saudi Employees

The KSA experiences challenges in the business and employment sectors. One of the significant challenges is the fact that most of the small and medium-sized companies do not provide adequate employment opportunities to the locals. According to the government's provisions, 30% of the total number of employees should be individuals of Saudi nationality. However, as illustrated in Table 7.12, most of the participant responses provided that the number of Saudi employees was between 11 and 20 %, which represented 59.6 %. It was followed by those who indicated that the percentage of local employees was between 20 and 31 % and represented 22.3 % of the sample. Those who indicated 5 to 10 % represented 14.6% of the samples while those who reported more than 30 % were only 3.9 % of the sample. Out of the 103 companies that responded to the questionnaire, 61 had Saudi employees who represented between 11 and 20 % of their total employees, 23 had between 21 and 30 %, 15 companies had 5 to 10 %, and 4 had more than 30% of Saudi employees (Table 7.12). The findings indicate that a significantly lower number of companies have adhered to the government threshold regarding the minimum number of Saudi employees in any enterprise.

Table 7-12: Descriptive Analysis by the Number of Saudi Employees

What is the percentage of Saudi employees in your company?	Frequency	Percentages
5 to 10%	15	14.6
11 to 20%	61	59.2
21 to 30%	23	22.3
More than 30%	4	3.9
Total	103	100.0

7.2.13 Parent Company's Share of Ownership in the Local Company

Ownership was another important component that the research sought to understand. Five choices were provided representing the percentage that the parent company owned in the local

government. As demonstrated in Table 7.13, 49.5 % of the sample had the parent company's ownership at between 26 and 50 %, 34 % between 51 and 75 % and 9.7 % > 75 %. Out of the 103 companies that were included in this study, 51 state that the parent company owned between 26 and 50 % of the local company, while 35 indicated that the percentage of ownership was between 51 and 75 %. As Table 7.13 illustrates, 10 respondents provided that the ownership was >75 % while 7 responded by indicating that the parent ownership was between 10 and 20 %. The findings indicate that a large number of these companies are partly owned by their parent companies.

Table 7-13: Descriptive Analysis of the Parent Company's Shares of Ownership in the Local Company

What is your parent company's share of ownership in the local company?	Frequency	Percentages
10 to 25%	7	6.8
26 to 50%	51	49.5
51 to 75%	35	34.0
>75%	10	9.7
Total	103	100.0

7.2.14 Type of Assets that Parent Company invested in the KSA

Having identified that a big percentage of parent companies had ownership in the local businesses, the researcher also sought to determine the type of assets that these foreign companies had invested in the KSA. The options provided included Capital, Technology and Capital and Technology and capital and 'Other'. As represented in Table 7.14, the biggest types of assets invested in the country include Capital and Technology at 88.3 % followed by Capital at 10.7 % and 'Other' types at 1 %. 91 of the 103 respondents provided that their parent company had invested in both Technology and Capital, 11 responded by Capital, 1 at 'Others' and no one responded with Technology only (Table 7.14). The findings indicate that parent companies have largely invested in both Capital and Technology.

Table 7-14: Descriptive analysis of the type of assets that parent companies invested into The KSA

What type of asset has your parent company invested into the KSA?	Frequency	Percentages
Capital	11	10.7
Capital and technology	91	88.3
Other	1	1.0
Total	103	100.0

7.2.15 Willingness of Companies to Invest More Capital in the Future

Data was also collected on the parent company's willingness to invest more capital into the KSA in the future. According to Table 6.15, 23.3 % of the companies would invest more capital in the future, while 76.7 % of the companies had no plans of investing any capital in the future. Out of 103 companies included in this study, 24 indicated that they would invest more capital while 79 indicated that they would not invest more capital in future. These findings communicate that the foreign companies mostly believe that the KSA's business atmosphere is unfavourable for their companies and are not willing to invest more capital in what they perceive as being the same risky environment.

Table 7-15: Descriptive Analysis of the Willingness of Companies to Infuse More Capital in the Future

Is your parent company going to be investing more capital in the KSA in the future?	Frequency	Percentages
Yes	24	23.3
No	79	76.7
Total	103	100.0

7.3 Descriptive Statistics of Main Scales

There are several factors that are believed to affect the performance levels of multinational enterprises in the KSA. This section entails key institutional measures that the study was aimed at in determining the main institutional factors that are being avoided, adapted, and valued by the British MNEs that are currently operating under the FDI arrangements in the Saudi institutional environments. Some of the factors that are analysed include *institutional avoidance factors*, *institutional adaptation factors*, and *institutional co-evaluation factors*. The institutional avoidance factors are measured using 33 items, the institutional adaptation factors using 9 items, and institution co-evaluation factors using 10 items. This information was important because it helped the researcher determine the organisations perceptions and adjustments to fit and act together to establish change in a particular environment. It also ascertained the level of influence that organisations have on foreign investors and if the British MNEs were discouraged by the nature of the existing institutions that they are forced to limit ventures as per the aspects of internalisation. The ranking was done according to the percentages and total number of participants that supported the level of satisfaction or the importance of the factors.

7.3.1 Formal Institution Avoidance

The formal institution avoidance factors that were measured include trade regime restrictiveness, tariff barriers, custom regulations, business regulatory consistency in dealing with the government, corporate tax, quality of public administration, and upholding of property rights. Other factors included impartiality of laws and regulations affecting economic activity, enforcement by the legal and judicial system, the efficiency of the local government administration, intellectual property rights protection, and protecting foreign investors.

Evidently, factors that had the highest level of formal institution avoidance were corporate tax, quality of public administration, and Tariff barriers. As indicated in Table 7.16, 73.8 % of the respondents admitted that they were ‘satisfied’ or ‘very satisfied’ with the corporate tax, 61.2 % were satisfied or very satisfied with quality of public administration. Therefore, it is evident that the Saudi business environment offers a relatively high level of business consistency. Only 1 % of the respondents provided that they were satisfied’ with impartiality of laws and regulations, 4.9 % were satisfied with the efficiency of the local government system while only 2.9 % expressed satisfaction in upholding property rights. The findings indicate that most of the respondents were ‘dissatisfied’ with the state of the three aforementioned factors in the KS

Table 7-16: Formal Institutional Avoidance Factors

	Very dissatisfied		Dissatisfied	Not sure	Satisfied	Very satisfied	Total of satisfied	Rank
Trade regime restrictiveness	N	7	41	8	46	1	47.0	5
	%	6.8	39.8	7.8	44.7	1.0	45.6	
Tariff barriers	N		7	37	58	1	59.0	3
	%		6.8	35.9	56.3	1.0	57.3	
Customs regulations	N	1	10	38	52	2	54.0	4
	%	1.0	9.7	36.9	50.5	1.9	52.4	
Business regulatory consistency in dealing with the government	N	22	69	2	9	1	10.0	8
	%	21.4	67.0	1.9	8.7	1.0	9.7	
Corporate tax	N		23	4	71	5	76.0	1
	%		22.3	3.9	68.9	4.9	73.8	
Quality of public administration	N	1	20	19	56	7	63.0	2
	%	1.0	19.4	18.4	54.4	6.8	61.2	
Upholding of property rights	N		23	30	46	4	50.0	6
	%		22.3	29.1	44.7	3.9	48.5	
Impartiality of laws and regulations affecting economic activity	N	25	74		4		4.0	10
	%	24.3	71.8		3.9		3.9	
Enforcement by the legal and judicial system.	N	16	69	17	1		1.0	12
	%	15.5	67.0	16.5	1.0		1.0	
Efficiency of the local government administration.	N	18	75	5	5		5.0	9
	%	17.5	72.8	4.9	4.9		4.9	
Intellectual property rights protection	N	21	74	5	3		3.0	11
	%	20.4	71.8	4.9	2.9		2.9	
Protecting foreign investors.	N		21	53	26	3	29.0	7
	%		20.4	51.5	25.2	2.9	28.2	

7.3.2 Informal Institutional Avoidance

The informal institutional factors that were measured included financial incentives, FDI-related guarantees, influence of Islamic laws, equity of public resources (access to services and opportunities), and equal access for men and women to human capital and development, equal status and protection under the law for men and women, and attitude of your local government towards your company or business. The other factors measured under this category included bureaucracy, corruption, transparency, favouritism, accountability, social stability, economic stability, political stability, threats of terrorism, influence of tribal culture, and cronyism (wasta). Trust issues including how the respondent trusts the Saudi environment, how the Saudi

government officials trust the business, and the respondents' trust in the Saudi government officials.

As demonstrated in Table 7.17, the informal institutional avoidance factors that scored highly include accountability, favouritism, and social stability with 102, 101, and 99 people respectively. Evidently, the outcome shows that they were 'satisfied' or 'very satisfied' with the state of those factors in the KSA. Also, 99.0 % of the respondents said that they were satisfied with accountability in the KSA, 98.1 % were 'satisfied' or 'very satisfied' with the Favouritism levels while 96.1 % of them were 'very satisfied' or 'satisfied' with the KSA's economic stability. The factors that scored the lowest under this category include attitude of the local government towards the respondents' company or business, corruption, and the influence of tribal culture. There was only 2 respondents that were satisfied with the attitude of the local government towards their business while only 2 respondents out of the 103 sample stated that they were satisfied with either the state corruption or bureaucracy in the KSA which was 2 %, 2 % and 1 % of the sample respectively. The findings indicate that a significantly high number of respondents were quite dissatisfied with the state of the aforementioned factors which threaten FDI in the KSA.

Table 7-17: Informal institutional Avoidance factors

		Very dissatisfied	Dissatisfied	Not sure	Satisfied	Very satisfied	Total of satisfied	Rank
Financial incentives	N	6	30	2	51	14	65.0	6
	%	5.8	29.1	1.9	49.5	13.6	63.1	
FDI-related guarantees	N	1	14	19	64	5	69.0	5
	%	1.0	13.6	18.4	62.1	4.9	67.0	
Influence of Islamic laws	N	1	9	28	60	5	65.0	7
	%	1.0	8.7	27.2	58.3	4.9	63.1	
Equity of public resource use (access to services and opportunities).	N	35	61	4	3		3.0	16
	%	34.0	59.2	3.9	2.9		2.9	
Equal access for men and women to human capital development.	N	12	69	4	18		18.0	12
	%	11.7	67.0	3.9	17.5		17.5	
Equal status and protection	N	65	35	3			0.0	
	%	63.1	34.0	2.9			0.0	

under the law for men and women.								
Attitude of local government toward your company or business.	N	48	48	5	2		2.0	19
	%	46.6	46.6	4.9	1.9		1.9	
Bureaucracy	N	25	60	17	1		1.0	21
	%	24.3	58.3	16.5	1.0		1.0	
Corruption	N	24	60	17	2		2.0	20
	%	23.3	58.3	16.5	1.9		1.9	
Transparency	N	22	56	21	4		4.0	14
	%	21.4	54.4	20.4	3.9		3.9	
Favouritism	N			2	60	41	101.0	2
	%			1.9	58.3	39.8	98.1	
Accountability	N			1	59	43	102.0	1
	%			1.0	57.3	41.7	99.0	
Social stability	N	1	1	2	54	45	99.0	3
	%	1.0	1.0	1.9	52.4	43.7	96.1	
Economic stability	N	1	3	17	53	29	82	4
	%	1.0	2.9	16.5	51.5	28.2	79.6	
Political stability.	N	6	62	30	4	1	5.0	13
	%	5.8	60.2	29.1	3.9	1.0	4.9	
Threats of terrorism	N	52	46	4	1		1.0	
	%	50.5	44.7	3.9	1.0		1.0	
Influence of tribal culture	N	11	56	3	30	3	33	8
	%	10.7	54.4	2.9	29.1	2.9	32	
Cronyism (Wasta)	N	9	56	10	26	2	28	10
	%	8.7	54.4	9.7	25.2	1.9	27.2	
Trust (how trustful you find the Saudi environment)	N	9	59	4	30	1	31	9
	%	8.7	57.3	3.9	29.1	1.0	30.1	
Trust by Saudi government officials towards your business	N	21	71	7	4		4.0	15
	%	20.4	68.9	6.8	3.9		3.9	
Your trust in Saudi government officials	N	12	57	7	27		27	11
	%	11.7	55.3	6.8	26.2		26.2	

7.3.3 Formal Institutional Adaptation Factors

The institutional adaptive factors that were measured include cooperation between the company and the local institutions, the Saudisation policy and enforcement, and coaching, mentoring, training and developing Saudi talent. The researcher sought to determine how the respondents ranked the level of importance of the aforementioned factors. As demonstrated in Table 7.18, 101 respondents considered coaching, mentoring, training and developing Saudi talent ‘important’ or ‘very important’, 88 respondents considered the cooperation between the company and local institution ‘important’ or ‘very important’, while 72 of them indicated that the Saudisation policy and enforcement was ‘very important’ or ‘important’. As a percentage, the representation was 69.9 %, 85.4 % and 98.1 % respectively. From the findings, it is evident that the three factors are largely considered important in ensuring successful FDI initiatives.

Table 7-18: Formal Institutional Adaptation Factors

		Very irrelevant	Irrelevant	Not sure	Important	Very important	Total	Rank
Cooperation between your company and local institutions	N		11	4	74	14	88.0	2
	%		10.7	3.9	71.8	13.6	85.4	
Saudisation policy and enforcement	N	.	23	8	58	14	72.0	3
	%		22.3	7.8	56.3	13.6	69.9	
Coaching, mentoring, training and developing Saudi talents	N		2		74	27	101.0	1
	%		1.9		71.8	26.2	98.1	

7.3.4 Informal Institutional Adaptation Factors

The informal institutional factors that were measured to determine how they impact on FDI in the KSA include proximity to firms in the same or a complementary sector, high industrial concentration including industrial park and clusters, attitude of people or local community towards the respondent’s company or business, corporate social responsibility (CSR) between the companies and local institutions, keeping a Saudi-friendly work environment, similarities and differences between local practice and parent-company practices. The factors that scored highly as very important in developing FDI in the KSA include: attitude of the people and local community towards the company or business, corporate social responsibility (CSR) between

the company and local institutions, keeping a Saudi-friendly work environment with 99 %, 98.1 %, and 98.1 % respectively.

Other factors were regarded ‘less important’ by the respondents including high industrial concentration (industrial park and clusters), similarities and differences between local practice and parent-company practice and proximity to firms in the same or complementary sector. Only 14.5 % of the 103 respondents considered high industrial concentration including industrial parks and clusters ‘important’ or ‘very important’. Additionally, 73.8 % respondents considered similarities and differences between local practice and parent-company practices ‘important’, while 96 of them indicated that proximity to firms in the same or a complementary sector was ‘important’. Under this category, most of the factors were considered ‘important’ or ‘very important’ as they significantly impacted on FDI in the KSA.

Table 7-19: Informal Institutional Adaptation Factors

		Very irrelevant	Irrelevant	Not sure	Important	Very important	Total	Rank
Proximity to firms in the same or Complementary sector.	N		5	2	53	43	96.0	4
	%		4.9	1.9	51.5	41.7	93.2	
High industrial concentration (industrial park and clusters).	N	27	48	13	10	5	15.0	6
	%	26.2	46.6	12.6	9.7	4.9	14.6	
Attitude of the people/local community toward your company or business.	N		1		36	66	102.0	1
	%		1.0		35.0	64.1	99.0	
Corporate social responsibility (CSR) between your company and local institutions	N		2		46	55	101.0	2
	%		1.9		44.7	53.4	98.1	
Keeping a Saudi-friendly work environment.	N		1	1	43	58	101.0	3
	%		1.0	1.0	41.7	56.3	98.1	
Similarities and differences between local practice and parent-company practices	N	3	14	10	63	13	76.0	5
	%	2.9	13.6	9.7	61.2	12.6	73.8	

7.3.5 Formal Institutional Co-evaluation Factors

The formal institutional co-evaluation factors that were measured included entering into partnership with choice advocacy-driven organisations, volunteering feedback and holding consultations with SAGIA and bilateral agreements to promote or protect FDI and trade. Unlike the previous factors, the respondents did not consider the formal institutional co-evaluation factors important as demonstrated in Table 7.20. Only 42 respondents out of 103 considered volunteering feedback and holding consultations with SAGIA important or very important which is 40.8 % of the total (Table 7.20). As Table 7.20 shows, 40 of them indicated that entering into partnership with choice advocacy-driven organisations, which is 38.8% of the total. 38 respondents of the total number considered bilateral agreements to promote or protect FDI and trade to be important or very important, which is 36.9 % of the total.

Table 7-20: Formal Institutional Co-evaluation Factors

		Very irrelevant	Irrelevant	Not sure	Important	Very important	total	Rank
Entering into partnerships with choice advocacy-driven organisations	N	9	50	6	37	1	38.0	3
	%	8.7	48.5	5.8	35.9	1.0	36.9	
Volunteering feedback and holding periodic consultations with the SAGIA	N	8	50	3	39	3	42.0	1
	%	7.8	48.5	2.9	37.9	2.9	40.8	
Bilateral agreements to promote or protect FDI and trade	N	4	49	10	38	2	40.0	2
	%	3.9	47.6	9.7	36.9	1.9	38.8	

7.3.6 Informal Institutional Co-evaluation Factors

Factor analysis is an important measure that can assist a researcher in understanding the underlying variables that explain the pattern of correlation within a set of observed variables. In this case, the informal institutional co-evaluation factors that were measured include knowledge and technology transfer for the advancement of knowledge to the community including trade symposium, expositions, sponsored lectures and seminars, knowledge and technology transfer for the advancement of knowledge to Saudi nationals on more specific terms such as training and education. Other factors include experimenting with and introducing new approaches and applying them to the local context, the role of language in doing business

in the KSA, the use of company-funded training programs to improve the language skills of employees, and formal language strategy.

According to Table 7.21, the factors that scored highly in this category include the knowledge and technology transfer for the advancement of knowledge to Saudi nationals on more particular terms such as training and education, experimenting with new approaches and applying them to the local context, and the role of language in doing business in the KSA representing 85.4 %, 61.2 %, and 44.7 % respectively (Table 7.21). On the same note, 63 out of 103 respondents were of the opinion that experimenting with new approaches and applying them to the local context was important or very important, while 46 respondents indicated that the role of language in doing business in the KSA was important or very important (Table 7.21).

The factors that garnered low scores in this category include the use of company-funded training programmes to improve the language skills of employees, formal language strategy, and introducing new approaches and applying them to the local context. Only 13.6 % of the respondents, which is about 14 respondents, indicated that the use of company-funded training programs to improve the language skill of employees was important or very important. 24.3 % of the total which is about 25 respondents opined that the formal language strategy, which is about employing native speakers full time in the company to support trade in the UK and other foreign trade was important or very important. 30.1 % of the respondents which is 31 out of 103 respondents indicated that introducing new approaches and applying them to the local context was important or very important.

Table 7-21: Informal Institutional Co-evaluation Factors

		Very irrelevant	Irrelevant	Not sure	Important	Very important	Total	Rank
Knowledge and technology transfer for the advancement of knowledge to the community	N	5	47	10	39	2	41.0	4
	%	4.9	45.6	9.7	37.9	1.9	39.8	
Knowledge and technology transfer for the advancement of knowledge to the Saudi nationals on more particular terms such as training and education.	N	1	13	1	76	12	88.0	1
	%	1.0	12.6	1.0	73.8	11.7	85.4	
Experimenting new approaches and applying them to the local context	N	2	33	5	58	5	63.0	2
	%	1.9	32.0	4.9	56.3	4.9	61.2	
Introducing new approaches and applying them to the local context	N	23	37	12	28	3	31.0	5
	%	22.3	35.9	11.7	27.2	2.9	30.1	
The role of language in doing business in the KSA.	N	16	33	8	45	1	46.0	3
	%	15.5	32.0	7.8	43.7	1.0	44.7	
The use of company-funded training programmes to improve the language skills of employees	N	37	38	14	10	4	14.0	7
	%	35.9	36.9	13.6	9.7	3.9	13.6	
Formal language strategy (i.e. employ native speakers full time in your company who support trade in the UK or other foreign trade)	N	40	30	8	18	7	25.0	6
	%	38.8	29.1	7.8	17.5	6.8	24.3	

7.4 Scales' Reliability

Cronbach's Coefficient Alpha was used to measure the reliability of the questionnaire between each field and the mean of the whole fields of the questionnaire. The normal range of Cronbach's coefficient alpha value between 0.0 and + 1.0, and the higher values reflects a higher degree of internal consistency (Ritter, 2010). As shown in Table 6.22 the Cronbach's coefficient alpha was calculated. The general reliability for all items equal 0.860. This range is considered high; the result ensures the reliability of the questionnaire.

Figure 7-1: Cronbach's Alpha for Reliability

No.	Section	Cronbach's Alpha
1	Institutional avoidance factors	0.847
2	Institutional adaptation factors	0.892
3	Institutional co-evolution factors	0.858
	All items	0.860

7.5 Inferential Statistics

After conducting the descriptive analysis of the main scales, the researcher conducted inferential statistical analysis. With the assistance of the SPSS, the researcher summed up each of the main scales to facilitate inferential statistical analysis. The data type used was non-parametric, which was not normally distributed. Inferential statistics are used to draw conclusions based on the sampling technique employed. In most instances, inferential statistics are used to prove the probability that an observed difference between groups is a reliable one or it might have happened by chance in the study. The major distinction between inferential statistics and descriptive statistics is that inferential statistics are used to make conclusions after performing a study, while descriptive statistics are used to give a detailed account of what is happening to the data being used in the study.

7.5.1 Pearson Correlation Analysis Results

The researcher found it prudent to conduct a correlation analysis to highlight the use and strength of the linear relationship among the variables under study. In most instances the Pearson's product moment correlation coefficient (r) which is employed for parametric statistics and the Spearman's Rank correlation coefficient, which is employed for non-parametric statistics are used to show the association among variables under study. The magnitude of the relationship under the Pearson's correlation coefficient is indicated in a value range of +1.00 and -1.00. A value range of zero shows that the variables under study have no significant connection or correlation. According to Pallant (2011), the value strength is defined as follows: 0.5 to 1 shows a large correlation, 0.3 to 0.49 shows medium correlation and finally 0.1 to 0.29 shows a small connection between the variables under study. This section shows a clear relationship between the three major factors under study, namely institutional avoidance factors, institutional adoption factors and institutional co-evaluation factors.

Formal and Informal Institutional Avoidance Factors (IAF)

In the analysis, the Pearson's correlation coefficient was calculated to measure the correlation between Formal IAF and Informal Institutional Avoidance Factors (IAF). The results suggest that there was a positive moderate and significant correlation ($r(103) = 0.426, p=0.000$).

Informal Institutional Avoidance Factors (IAF) and Informal Institutional Co-efficiency Factors (ICo-EF)

The relationship between the Informal Institutional Avoidance Factors (IAF) and the Informal Co-efficiency (ICo-EF) was also measured in this study. Table 7.22 shows that both variables were significantly and positively correlated with each other ($r(103) = 0.255, p=0.009$). However, the relationship is weaker than the relationship between the Formal IAF and Informal IAF.

Formal Institutional Adaptation Factors (IAdF) and Formal Institutional Co-evaluation Factors (ICo-EF)

The Pearson correlation measure shows a positive relationship between the Formal IAdF and Formal ICo-EF ($r(103) = 0.296, p=0.002$). Evidently, the positive correlation is weak, which is a clear indication that the respondents who share the same sentiments regarding the formal institutional adoption factors also have slightly similar views concerning the formal institutional co-evaluation factors.

Formal Institutional Adaptation Factors (IAdF) and Informal Institutional Co-evaluation Factors (ICo-EF)

As Table 7.22 shows, the Pearson Coefficient correlation also facilitated the analysis of the relationship between the Formal IAdF and the Informal ICo-EF ($r(103) = 0.262, p=0.008$). The interpretation of the outcome is that a high satisfaction level among the participants regarding the formal institutional adoption factor is weakly associated with a high satisfaction with informal institutional co-evaluation factors.

Formal and Informal Institutional Adaptation Factors (IAdF)

As indicated in Table 7.22, the Pearson Coefficient correlation between the Formal IAdF and the Informal IAdF shows a positive relationship ($r(103) = 0.532, p<0.001$). With r of 0.532 and a p value of < 0.001 , it is evident that the association is not only positive, but also a moderate uphill relationship. Notably, the high satisfaction level regarding the formal IAdF is moderately associated with a high satisfaction level among the participants when it comes to the informal institutional avoidance factors.

Formal and Informal Institutional Co-evaluation Factors (ICo-EF)

The correlation test between the formal ICo-EF and informal IAdF confirms a positive relationship between the two variables. As Table 7.22 shows, the ($r(103) = 0.630, p$ value is < 0.001). Apparently, positive relation is the most significant compared to other relationships recorded. Therefore, it is justifiable to conclude that a high satisfaction level regarding the formal institutional co-evaluation factors is associated with a high level of satisfaction concerning the informal institutional co-evaluation factors. In other words, the participants

shared similar sentiments regarding the institutional co-evaluation factors irrespective of whether the factors were formal or informal.

Formal Institutional Co-evaluation (ICo-EF) and Informal Institutional Adaptation Factors (IAdF)

Regarding the relationship between formal ICo-EF and formal IAdF, the results revealed a moderate correlation ($r(103) = 0.522, p < 0.001$). The interpretation of the outcome is the higher the satisfaction with formal institutional co-evaluation factors the higher the satisfaction with formal institutional adoption factors.

Informal Institutional Co-evaluation (ICo-EF) and Informal Institutional Adaptation Factors (IAdF)

The relationship between the informal ICo-EF and the informal IAdF was yet another measure taken in this study. As Table shows, there was a positive correlation between the two variables ($r(103) = 0.564, p < 0.001$). Evidently, the correlation was moderately significant. Therefore, the higher the informal institutional co-evaluation factors the higher the informal institutional avoidance factors.

Table 7-22: Pearson Correlations Summary

		Formal IAF	Informal IAF	Formal IAdF	Formal ICo-EF	Informal ICo-EF	Informal IAdF
Formal IAF	Pearson Correlation	1	.426**	.129	.116	.235*	.125
	Sig. (2-tailed)		.000	.193	.242	.017	.207
	N	103	103	103	103	103	103
Informal IAF	Pearson Correlation	.426**	1	.005	.162	.255**	.072
	Sig. (2-tailed)	.000		.964	.103	.009	.468
	N	103	103	103	103	103	103
Formal IAdF	Pearson Correlation	.129	.005	1	.296**	.262**	.532**
	Sig. (2-tailed)	.193	.964		.002	.008	.000
	N	103	103	103	103	103	103
Formal ICo-EF	Pearson Correlation	.116	.162	.296**	1	.630**	.522**
	Sig. (2-tailed)	.242	.103	.002		.000	.000
	N	103	103	103	103	103	103
Informal ICo-EF	Pearson Correlation	.235*	.255**	.262**	.630**	1	.564**
	Sig. (2-tailed)	.017	.009	.008	.000		.000
	N	103	103	103	103	103	103
Informal IAdF	Pearson Correlation	.125	.072	.532**	.522**	.564**	1
	Sig. (2-tailed)	.207	.468	.000	.000	.000	
	N	103	103	103	103	103	103

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

7.5.2 Logistic Regression Analysis

A logit regression (also known as a logistic regression) is a predictive analysis performed when the dependent variable is dichotomous. Researchers apply logistic regression to bring out the connection between one dependent variable and one or more nominal, ordinal interval or ratio-level independent variables. According to Scott and Carrington (2011), logistic regression is used to assess similarities or differences in different groups. This gives it an added advantage over linear regression since it deals with dependent variables that are categorical and dichotomous. The researcher applied the logistic regression model in the present study to bring out the connection between independent factors and dependent factors. A logit regression model is used to examine the relationship between institutions (formal and informal) and FDI inflows in the KSA. It is applied because the outcome the dependent variable is binary. Chapter four (theoretical framework) was explained the independent variables (IVs) are institutional factors (formal and informal), while the dependent variable (DV) is the FDI inflows.

Logistic Regression to Predict Future Investments

7.5.2.1 Logistic Regression on formal Institutional Avoidance Factors

The SPSS allowed the researcher to conduct the omnibus test of coefficients in a bid to check whether the new model shows any improvement when compared to the baseline model. The test uses chi-square tests to determine whether there is a significant difference between the new and the baseline models as far as the log-likelihoods are concerned. As Table 7.23 shows, the step row indicates that $X^2=19.500$ while the $p=0.088$. Here, it is clear that the regression model was not significant. The model summary in Table 7.24 indicates the outcome on the log-likelihoods and pseudo- R^2 values for the full model. A closer examination of the model summary indicates that the model explains 16.8 % or 25.4 % of the variance in investment (Table 7.24).

After confirming that the regression model was not significant and the specific percentages of the variance in investment, the classification table offers more insights. According to the classification

table, the outcome can be predicted with 76% accuracy rate (Table 7.25). Looking at the variables in the equation, the enforcement by the legal and judicial system was found to be the only significant predictor ($B=1.01$, $p=0.041$) (Table 7.25).

Table 7-23: Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	19.005	12	.088
	Block	19.005	12	.088
	Model	19.005	12	.088

Table 7-24: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	92.829 ^a	.168	.254

a. Estimation terminated at iteration number 5 because parameter estimates changed by $< .001$.

Table 7-25: Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a Trade regime restrictiveness	.452	.269	2.817	1	.093	1.571
Tariff barriers	-.532	.882	.363	1	.547	.588
Customs regulations	.372	.798	.217	1	.641	1.451
Business regulatory consistency in dealing with the government	-.169	.371	.208	1	.649	.844
Corporate tax	-.117	.371	.099	1	.753	.890
Quality of public administration.	.108	.467	.053	1	.817	1.114
Upholding of property rights	.731	.479	2.329	1	.127	2.076
Impartiality of laws and regulations affecting economic activity.	.038	.493	.006	1	.939	1.039
Enforcement by the legal and judicial system.	1.011	.494	4.192	1	.041*	2.748
Efficiency of the local government administration.	-.173	.571	.092	1	.761	.841
Intellectual property rights protection	.409	.596	.471	1	.493	1.506
Protecting foreign investors	.269	.354	.580	1	.446	1.309
Constant	-7.603	2.818	7.277	1	.007	.000

7.5.2.2 Logistic Regression on Informal Institutional Avoidance Factors

The multiple logistic regressions provided crucial insights regarding the informal institution avoidance factors. As reported in Table 7.27, the omnibus test indicated that the model was significant ($\chi^2=40.040$, $p=0.015$). The model summary shows that the Cox & Snell R Square value is 0.322. Higher pseudo R-square statistic is usually associated with a model that fits the data better (Table 7.27). As indicated in Table 7.28, how trustworthy the investors find the Saudi business environment is a significant predictor of future FDI flow into the Kingdom ($\beta=1.273$, $p=0.047$). Other significant predictors include equal status and protection under the law for men and women ($B=-2.188$, $p=0.035$), economic stability ($B=-1.558$, $P=0.01$), and threats of terrorism ($B=-2.231$, 0.013). The predictions provide crucial insights regarding the specific variables that influence the decision of investors. In particular, the outcome reveals that bureaucracy, terrorism threats,

cronyism, trust of Saudi government officials (A31b), and the trust by the Saudi government towards businesses as the most important variables for making significant predictions.

Table 7-26: Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	38.657	21	.011
	Block	38.657	21	.011
	Model	38.657	21	.011

Table 7-27: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	73.178 ^a	.313	.472

a. Estimation terminated at iteration number 20 because maximum iterations has been reached. Final solution cannot be found.

Table 7-28: Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	Financial incentives	-.296	.354	.702	1	.402	.743
	FDI-related guarantees	1.739	.947	3.370	1	.066	5.689
	Influence of Islamic laws	-1.230	.894	1.893	1	.169	.292
	Equity of public resource use	.162	.607	.071	1	.789	1.176
	Equal access for men and women to human capital development	.469	.466	1.013	1	.314	1.598
	Equal status and protection under the law for men and women	-2.053	.996	4.246	1	.039	.128
	Attitude of local government towards your company or business	1.486	.959	2.398	1	.121	4.419
	Bureaucracy.	.798	.962	.687	1	.407	2.221
	Corruption	22.044	10128.788	.000	1	.998	3746378926.917
	Transparency.	-22.006	10128.788	.000	1	.998	.000
	Favouritism	4.783	2.406	3.951	1	.047	119.468
	Accountability.	-10.587	4520.142	.000	1	.998	.000
	Social stability	6.543	4520.141	.000	1	.999	694.198
	Economic stability	-1.716	.598	8.239	1	.004	.180

Political stability	.028	.671	.002	1	.966	1.029
Threats of terrorism	-2.333	.901	6.704	1	.010	.097
Influence of tribal culture	.832	.549	2.299	1	.129	2.299
Cronyism (Wasta)	1.243	.543	5.233	1	.022	3.466
Trust (how trustful you find the Saudi environment)	-1.220	.623	3.830	1	.050	.295
Trust by Saudi government officials towards your business.	-.126	.693	.033	1	.856	.882
Your trust in Saudi government officials.	.272	.454	.359	1	.549	1.313
Constant	-.453	4.125	.012	1	.913	.636

7.5.2.3 Logistic Regression Analysis of Formal Institutional Adaptation Factors IAF

Logistic Regression of the formal institutional Adaptation factors provided valuable insights. As Figure 7.29 demonstrates, the chi-square value for the omnibus tests of model coefficients was 14.126. Most importantly, a significance level of 0.003 was registered, which is a clear indication that the model is significant since it is less than 0.05. On the other hand, the model summary shows that the Cox & Snell R Square value is 0.128 (Table 3.30). Since a higher value is associated with a model that fits data better, recorded value is low; therefore, the model fits the data poorly. As Table 7.31 shows, coaching, mentoring, training and developing Saudi talents happened to be the most significant predictor of FDI inflow into the Saudi economy.

Table 7-29: Omnibus Tests of Model Coefficients

	Chi-square	Df	Sig.
Step 1 Step	14.126	3	.003
Block	14.126	3	.003
Model	14.126	3	.003

Table 7-30: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	97.709 ^a	.128	.193

a. Estimation terminated at iteration number 5 because parameter estimates changed by < .001.

Table 7-31: Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a						
Cooperation between your company and local institutions.	-.183	.441	.171	1	.679	.833
Saudisation policy and enforcement.	-.270	.345	.613	1	.434	.764
Coaching, mentoring, training and developing Saudi talents.	1.992	.572	12.110	1	.001	7.329
Constant	-8.148	2.287	12.698	1	.000	.000

7.5.2.4 Logistic Regression Analysis of the Informal Institutional Adaptation Factors (IAF)

Regarding the informal institutional adaptation factors, the logistic regression analysis provided crucial insights. As Table 7.32 illustrates, the omnibus tests of the model coefficients confirmed no significance ($\chi^2(103) = 3.084$, $p = 0.703$). Concerning the model summary, the Cox & Snell R Square value is 0.036 (Table 3.33). As indicated in Table 7.34, none of the variables in the equation indicated a significance that is low enough to be considered significant in facilitating prediction.

Table 7-32: Omnibus Tests of Model Coefficients

	Chi-square	Df	Sig.
Step 1	3.804	6	.703
Block	3.804	6	.703
Model	3.804	6	.703

Table 7-33: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	108.031 ^a	.036	.055

a. Estimation terminated at iteration number 5 because parameter estimates changed by < .001.

Table 7-34: Variables in the Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 ^a	Proximity to firms in the same or complementary sector	.453	.413	1.204	1	.273	1.573
	High industrial concentration (industrial park and clusters).	.184	.225	.673	1	.412	1.202
	Attitude of the people/local community towards your company or business	.390	.554	.497	1	.481	1.478
	Corporate social responsibility (CSR) between your company and local institutions.	-.246	.643	.147	1	.701	.782
	Keeping a Saudi-friendly work environment	-.084	.589	.020	1	.887	.920
	Similarities and differences between local practices and parent-company practices.	.127	.290	.191	1	.662	1.135
	Constant	-4.389	2.897	2.296	1	.130	.012

7.5.2.5 Logistic Regression analysis of formal Institutional Co-evaluation Factors

Logistic regression analysis provided crucial insights concerning the formal institutional co-evaluation factors. As Table 7.35 shows, the omnibus tests of the model coefficients revealed an insignificant value of 3.167 (chi-square) and a significance of 0.367. On the other hand, the model summary revealed a Cox & Snell R Square value of 0.030 (Table 3.36). As indicated in Table 7.34, none of the variables in the equation indicated a significance that is low enough to be considered significant in facilitating prediction. As Table 7.37 demonstrates, variables chosen as the parameters for predicting issues to do with Informal ICo-EF do not show any significance worth noting.

Table 7-35: Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	3.167	3	.367
	Block	3.167	3	.367
	Model	3.167	3	.367

Table 7-36: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	108.668 ^a	.030	.046

Estimation terminated at iteration number 4 because parameter estimates changed by < .001.

Table 7-37: Variables in the Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 ^a	Entering into partnerships with choice advocacy-driven organisations.	-.184	.369	.249	1	.618	.832
	Volunteering feedback and holding periodic consultations with the Saudi Arabian General Investment Authority (SAGIA).	.102	.369	.077	1	.781	1.108
	Bilateral agreements to promote or protect FDI and trade	.404	.257	2.478	1	.115	1.498
	Constant	-2.177	.839	6.730	1	.009	.113

7.5.2.6 Logistic Regression Analysis of informal Institutional Co-evaluation Factors

Regarding the informal institutional co-evaluation factors, the omnibus tests of model coefficients reveal that the inclusion of the block of the variables does not necessarily contribute to model fit. The p value of 0.511 is > 0.05, which means that the block one model is not an improvement of block zero model (Table 7.38). The table on variables in the equation (Table 7.40) provides even

more insights to show the low significance level for each of the variables that fall under formal institutional co-evaluation factors.

Table 7-38: Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	6.248	7	.511
	Block	6.248	7	.511
	Model	6.248	7	.511

Table 7-39: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	105.587 ^a	.059	.089

a. Estimation terminated at iteration number 5 because parameter estimates changed by < .001.

Table 7-40: Variables in the Equation

	B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 ^a Knowledge and technology transfer for the advancement of knowledge to the community (trade symposium, expositions, sponsored lectures and seminars	.155	.290	.286	1	.593	1.168
Knowledge and technology transfer for the advancement of knowledge to the Saudi nationals on more particular terms such as training and education.	.061	.411	.022	1	.883	1.063
Experimenting new approaches and applying them to the local context.	.174	.345	.255	1	.614	1.190
Introducing new approaches and applying them to the local context	-.014	.274	.002	1	.960	.987
The role of language in doing business in the KSA.	.431	.306	1.984	1	.159	1.538
The use of company-funded training programmes to improve the language skills of employees	-.150	.284	.280	1	.597	.861
Formal language strategy (i.e. employ native speakers full time in your company who support trade in the UK or other foreign trade).	-.071	.211	.113	1	.737	.932
Constant	-3.253	1.476	4.860	1	.027	.039

7.5.2.7 Logistic Regression Analysis Based on the Overall Mean

The outcome on the overall mean is yet another logistic regression analysis that sheds more light regarding the variables studied. As Table 41 demonstrates, $x = 9.27$, $p = 0.015$. The fact that the p value is >0.05 renders the model fit insignificant. The model table shows a Cox & Snell R Square value of 0.086. In line with the omnibus tests of model coefficients, Table 7.43 shows that that none of the variables leads to a significant prediction.

Table 7-41: Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	9.270	6	.159
	Block	9.270	6	.159
	Model	9.270	6	.159

Table 7-42: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	102.565 ^a	.086	.130

a. Estimation terminated at iteration number 5 because parameter estimates changed by $< .001$.

Table 7-43: Variables in the Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 ^a	Formal IAF	1.671	.914	3.341	1	.068	5.319
	Informal IAF	.294	.670	.192	1	.661	1.342
	Formal IAdF	.232	.481	.233	1	.629	1.261
	Formal Co-EF	-.061	.367	.027	1	.869	.941
	Informal Co-EF	.300	.447	.450	1	.502	1.349
	Informal IAdF	.252	.757	.111	1	.740	1.286
	Constant	-9.393	3.530	7.078	1	.008	.000

7.5.2.8 Logistic Regression Analysis on Predicting Investment from Demographics

The researcher investigated whether the demographic information from the participants could be used to predict investment. Therefore, the logistics regression analysis provided the much-needed platform for conducting the task. As part of the procedure, the researcher left out question 16. Since question 16 was an open-ended question, the participants had the freedom to choose the estimates that their companies were willing to invest in their venture in the KSA. The open-ended questions introduced major outliers since the companies differed in terms of their financial capacity. Therefore, it was necessary to focus on variables, where the choices given restricted the range of choices that participants can select leading to uniformity of data.

As Table 7.44 shows, the omnibus test of model of model coefficients shows a significant prediction. In particular, the p value is 0.001. Since the p value is < 0.05 , it is possible to predict future investments from the demographics. The table on the variables on demographics provides more insight regarding the specific variables that lead to the prediction. As Table 7.46 demonstrates, Q13A (0.044), Q17, (0.024), Q24 (0.01), and Q18_West (0.024) reveal a significant prediction. For instance, question 13 reflects the demographic information on the percentage of employees who hold Saudi citizenship.

Table 7-44: Omnibus Tests of Model Coefficients

	Chi-square	Df	Sig.
Step 1 Step	34.930	13	.001
Block	34.930	13	.001
Model	34.930	13	.001

Table 7-45: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	68.417 ^a	.305	.463

Estimation terminated at iteration number 6 because parameter estimates changed by <.001.

Table 7-46: Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a What is your position in this company?	-1.583	.784	4.075	1	.044	.205
Equity joint venture	-1.734	1.243	1.947	1	.163	.177
How long has your company been doing business in The KSA?	-1.336	.593	5.080	1	.024	.263
How many people does your company employ?	-.413	.380	1.178	1	.278	.662
What is the percentage of Saudi employees in your company?	-.802	.568	1.993	1	.158	.448
What is your parent company's share of ownership in the local company?	1.380	.538	6.578	1	.010	3.973
What type of asset has your parent company invested into the KSA?	-1.535	1.217	1.590	1	.207	.215
Saudi Nationality	-.847	.918	.852	1	.356	.429
British Nationality	-.512	.901	.323	1	.570	.599
East region	.261	.774	.114	1	.736	1.298
West region	-2.808	1.246	5.081	1	.024	.060
Any obstacle (geographical proximity)	.336	.790	.180	1	.671	1.399
More than one employment site	-.065	.890	.005	1	.941	.937
Constant	8.477	5.024	2.847	1	.092	4804.932

7.6 Hypotheses Testing Summary

The logit regressions listed above, provided the much-needed platform for testing the hypotheses in this study. The first objective was to determine the relationship between formal institutional avoidance factors and the flow of FDI into the Saudi economy. Therefore, the hypotheses focused on each of the specific factors with the independent variables as the covariates.

H1.1: There is positive and significantly relationship between Formal Institutional Avoidance Factors and FDI in the KSA.

To summarise, one formal institutional Avoidance factor was shown to have significant association with FDI, Enforcement by legal and judicial system is focused on determining how the enforcement of legal and judicial systems is associated with FDI in the KSA. As Table 7.25 shows, the logistic analysis revealed that there is a statistically significant relationship between the two variables ($B=1.01$, $p=0.041$, $p<0.05$). Hence, the hypothesis is accepted. Other formal institutional factors showed no association with FDI ($p>0.05$).

H1.2: There is positive and significantly relationship between Formal Institutional Adaptation Factors and FDI in the KSA.

One formal institutional Adaptation factor was shown to have significant association with FDI. The efforts to increase coaching, mentoring, training and developing Saudi talents will affect the willingness of investors to increase FDI into the KSA. As Table 7.31 shows, the logistic analysis revealed that there is a statistically significant relationship between the two variables ($B=1.92$, $p=0.001$, $p<0.05$). Hence, the hypothesis is accepted. Other formal institutional Adaptation factors showed no association with FDI ($p>0.05$).

H1.3: There is positive and significantly relationship between Formal Institutional Co-evaluation Factors and FDI in the KSA.

From the logistic regression analysis, it is evident that there is no statistically significant relationship between the *Formal Institutional Co-evaluation Factors and FDI in the KSA*. As Table 7.37 shows, no statistically significant relationship was registered. Therefore, the hypothesis is rejected.

H2.1: There is positive and significantly relationship between Informal Institutional Avoidance Factors and FDI in the KSA.

To summarise, six informal institutional Avoidance factors were shown to have significant association with FDI. Namely: Equal status and protection under the law for men and women ($B = -2.05$, $p = 0.039$), Favouritism ($B = 4.78$, $p = 0.047$), Economic stability ($B = -1.71$, $p = 0.004$), Threats of terrorism ($B = -2.33$, $p = 0.010$), Cronyism (Wasta) ($B = 1.24$, $p = 0.022$), and Trust (how trustful you find the Saudi environment) ($B = -1.22$, $p = 0.050$). These factors focused on determining how the informal institutional Avoidance were associated with FDI in the KSA. As Table 7.28 shows, the logistic analysis revealed that there is a statistically significant relationship. Hence, the hypothesis is accepted.

H2.2: There is positive and significantly relationship between Informal Institutional Adaptation Factors and FDI in the KSA.

This hypothesis focused on testing the probability of whether informal institutional Adaptation factors are linked to FDI in the KSA. As Table 7.34 shows, the logistic regression analysis confirms that there is no statistically significant relationship. Hence, the hypothesis is rejected.

H2.3: There is positive and significantly relationship between Informal Institutional Co-evaluation Factors and FDI in the KSA.

From the logistic regression analysis, it is evident that there is no statistically significant relationship between the Formal Institutional Co-evaluation Factors and FDI in the KSA. As Table 7.40 shows, no statistically significant relationship was registered. Therefore, the hypothesis is rejected and all informal institutional Co-evaluation factors showed no association with FDI ($p > 0.05$).

7.7 Summary of the Main Findings

In summary, this chapter marks a crucial turning point for this study since the findings can now answer the research objectives mentioned on page 17. The descriptive analysis created a sound platform for conducting the inferential statistical analysis, which was critical in testing the hypotheses in this study. The descriptive analysis provides several crucial insights regarding the demographics of the participants and information of the MNEs they work for. With these findings, it is now possible to discuss the outcome in relation to the specific research objectives in Chapter One and the previous findings. The outcome of the study depends on how the findings relate to previously conducted studies. For instance, one of the most critical questions is how the findings have addressed the research problem and the research gap identified earlier. Therefore, the next chapter forms a link between the existing body of knowledge and the new evidence that this chapter has revealed and proven, empirically.

Chapter 8 : Discussion of Findings

8.1 Introduction

After the analysis of data in Chapter 7, this chapter provides a much-needed opportunity for understanding FDI in the KSA. In particular, the results provide crucial insights into the decision regarding the location of British MNEs taking into account institutional determinants. In this chapter, the results are discussed to determine if the data collected answers the research question.

8.2 Research Question and Objectives

The first objective of the study was to determine the institutional factors that are valued and adapted by British MNEs. In Chapter 7, Tables 7.16, 7.17, 7.18, 7.19, 7.20, and 7.21 show the level of satisfaction with which the business environment is concerned. Evidently, corporate tax, quality of public administration and tariff barriers, are the most satisfying formal institutional avoidance factors (Table 7.16). Therefore, the willingness of British MNEs to continue operating in the KSA is significantly influenced by these factors. On the same note, it is worth noting how the respondents reacted when it comes to the informal institutional avoidance factors. As indicated in Table 7.17, accountability, favouritism and social and economic stability were the most important factors according to the views of the investors.

Evidently, previous researchers have also emphasised the need for social and economic stability as a way of encouraging FDI (Bekefi and Epstein, 2006) For instance, a study by Bekefi and Epstein (2006) revealed that social stability plays a major role in influencing the willingness of multinational companies to operate in specific countries or regions since the senior management and investors share the same concern of how social instability might distract the operations of their company. In a recent study, Najaf and Ashraf (2016) proved how social instability in Pakistan led to a significant drop of FDI inflow into the country, which shares the same geopolitical situation with the KSA. However, it is worth noting how the KSA has remained both politically and socially stable in a region where uprising, rogue leadership and terrorism is deterring investors.

The second research objective was to analyse how British MNEs perceive and adjust to the environment in the KSA. Evidently, the results revealed that there is a relationship between institutional avoidance or adaptation factors and the multinational enterprises (MNE) in the KSA. While this is true, the extent of knowledge, whether wholly or in part positive or negative, is not made clear in just the testing of the hypotheses. When correlating this information with the data collected, one can tell that much is still unknown with a number of responses listed as ‘not sure’ or ‘not sure’ in each question in each category. This shows there is an inconclusive finding for a positive relationship between organisational structure and ownership advantage and therefore does not support the idea of internalisation advantage having a positive relationship with FDI in the KSA. The results also indicate that there is a relationship between the institutional adaptation, avoidance and co-evaluation factors tested by the questionnaire and depending on the individual factor, the results could indicate a positive or negatively associated relationship, but a relationship still exists.

The third research objective was to determine the ability of the KSA in attracting FDI and their institutional policies. The aim of this study was to provide a platform for experienced experts to provide their honest assessment regarding the KSA business environment and whether it is ideal for encouraging foreign investors to consider the Kingdom as a promising investment destination. As part of the statistical analysis, the researcher performed logistic regression to gain deeper insights regarding different aspects that might influence the decision of potential investors. The sole aim of performing logistic regression was to predict future investment of the companies considered in the study. For instance, the logistic regression analysis provided valuable insights regarding the Informal Institutional Avoidance Factors. As reported in Table 7.27, the omnibus test showed a high level of significance, which is a clear indication that such factors can be used to predict the decision of investors to invest or expand their operations in the KSA. Noticeably, it is even possible to indicate specific factors that can be used in the prediction. For instance, the outcome reveals that bureaucracy, terrorism threats, cronyism, favouritism, trust in Saudi government officials and the trust by the Saudi government towards businesses are the most important variables for making predictions (Table 7.28). After identifying these predictors, Saudi policy makers are in a better position to make informed decisions that can encourage FDI. The

assumption is that current investors will share the same concerns as foreign investors who are looking for lucrative markets to venture and invest their money.

The factors were not all considered as obstacles and not by all participants. The term obstacles, in this case, relates to the factors that do prevent or make it significantly more difficult to overcome when considering FDI in the KSA. The word obstacle in this research indicates that there are factors that impede or prevent the progress, but not necessarily the ability to complete the task. In this case, the British MNEs have already established FDI in the KSA indicating that the factors presented as obstacles but not complete road blocks from entry into the Saudi marketplace. The question also asks what obstacles the British MNEs tend to avoid and as the questionnaire was set up, this question was not asked as a closed-ended question where they could choose one or more option. This may not be a large consideration overall, but understanding the definition of obstacle used in this study is helpful.

In this study the research question is:

1. What institutional **and locational** obstacles exist for the KSA that British MNEs tend to avoid?

To begin this discussion, it is necessary to state that a relationship has been established between institutional factors and FDI in the KSA. This was tested and supported by the data collected. The institutional factors that demonstrate both positive and negative factors exist. The manner in which this research question was written does not directly provide answers in the hypotheses, as the participants were not asked “What institutional obstacles exist for the KSA that you as British MNEs tend to avoid?” Instead they were asked whether the individual factors and the degree to which the factors present as an obstacle (assumed) or in a positive way impacted upon their decision. Upon review, this difference in wording can lead to confusion as to the intent of the answer given by the participants.

However, with the degrees of perception of positive and negative, it is somewhat easier to determine if the institutional factor is an obstacle. This type of assumption is not detrimental to the

overall outcomes of the study, except for when the positive and negative results are close in numbers demonstrating equity in regard to ‘for’ and ‘against’. Making an assumption in this case with ‘unsure’ as a possible answer that could alter the actual numbers makes it more challenging to understand the motive for their uncertainty.

Table 8.1 presents the obstacles likely to be avoided by British MNEs when investing in the KSA. The categories in the table below are the best representation of all the answer options in three different sections of the questionnaire. Highly Negative Responses include the following answers ‘not sure’, ‘very irrelevant’, ‘irrelevant’, ‘very dissatisfied’ and dissatisfied. The Lower Negative Responses includes ‘satisfied’, ‘very satisfied’, ‘important’ and ‘very important’. The ‘important’ and ‘very important’ can fall into either positive or negative depending on the perspective. In this case, ‘important’ is answering how the factor affects the MNEs performance in the KSA. The questions do not clarify if the importance is viewed as an obstacle or seen as an important factor but not necessarily as a stumbling block- ‘important’ is connotatively a positive word.

Table 8-1: Institutional Obstacles

Higher Negative Response	Lower Negative Response	Nearly Equally Divided
Business regulatory consistency in dealing with the government	Equity of Public Resource Use (access to services and opportunities)	Trade Regime Restrictiveness
Quality of Public Administration	Tariff barriers	Influence of Islamic Laws
Upholding Property Rights	Customs Regulations	Entering into Partnerships with Choice Advocacy-driven Organisations
Impartiality of Laws and Regulations Affecting Economic Activity	Corporate Tax	
Enforcement by the Legal and Judicial System	Financial Incentives	
Efficiency of the Local Government Administration	FDI-Related Guarantees	
Attitude of Local Government Towards Your Company or Business	Equal Access for Men and Women to Human Capital Development	
Bureaucracy	Equal Status and Protection Under the Law for Men and Women	
Corruption	Social Stability	
Transparency	Economic Stability	
Corruption	Political Stability	
Transparency	Terrorism Effect on Your Business	
Favouritism	Proximity to Firms in the Same or Complementary Sector	
Accountability	High Industrial Concentration (Industrial Park and Clusters)	
Influence of Tribal Culture	Attitude of the People/Local Community Towards Your Company or Business	
Cronyism (Wasta)	Cooperation Between Your Company and Local Institutions	
Trust (how trustful you find the Saudi environment)	Saudisation policy and enforcement	
Trust by Saudi Government Officials Towards Your Business	Coaching, Mentoring, Training, and Developing Saudi Talents	
Your Trust in Saudi Government Officials	Keeping a Saudi-Friendly Work Environment	
Intellectual Property Rights Protection	With Differences in Organisational Frameworks, Cultures, and Practices Between the Local Office and the Parent-Company. How Satisfied Are You with the Developments of New Routines and New Forms of Governance Practiced Locally or Differently from Home Office Practices?	
Protecting Foreign Investors	The Role of Language in Doing Business in The KSA	
Corporate Social Responsibility (CRS) Between Your Company and Local Institutions	The Use of Company-Funded Training Programmes to Improve the Language Skills of Employees	

Knowledge and Technology Transfer for the Advancement of Knowledge to the Community (trade symposium, expositions, sponsored lectures and seminars)	Formal Language Strategy (employ native speakers full time in your company who support trade in UK or other foreign trade)	
Knowledge and Technology Transfer for the Advancement of Knowledge to the Saudi Nationals on More Particular Terms Such as Training and Education		
Introducing New Approaches and Applying Them to the Local Context		
Experimenting New Approaches and Applying Them to the Local Context		
Volunteering feedback and holding periodic consultations with the KSA General Investment Authority (SAGIA)		
Bilateral Agreements to Promote or Protect FDI and Trade		

Source: Author

Table 8.1 illustrates the significant differences in the institutional factors seen as obstacles. Only three institutional factors are nearly divided between positively and negatively affecting the British MNEs. The negatively affecting factors account for five more than the positively affected factors impacting the British MNEs. This allows for easy understanding in where the emphasis needs to be placed going forward to address the institutional determinants viewed as obstacles.

8.3 Varieties of Capitalism

In the literature review, the researcher discussed at length the varieties of capitalism (VOC). The work was referenced from Kuznetsov and Jacobs' (2015) study of German and British MNEs in the respective countries. The study looked at the intra-organisational adaptation and institutional variation across countries and demonstrated the challenges involved in the process of reconciliation of the VOC at the firm level. Moreover, the study portrays difficult situations that are found among cultures in the KSA and the UK during reconciling at the firm level. The current research and study is similar to Kuznetsov and Jacobs' (2015) as the MNE chooses to find strategic choices that would enable them to find institutional support. In this study, the research found a disconnection when the participants were asked to answer open-ended questions pinpointing the

specific obstacles and other questions mentioned previously. Interestingly, the Formal Institutional Adaptation Factors show the specific areas that managers in the KSA consider necessary and important. As indicated in Table 7.18, the analysis focused on the cooperation between the company and the local institutions, the Saudisation policy and enforcement, training, mentoring and coaching. From the results presented in Chapter 7, it is clear that managers consider coaching, mentoring, training and developing Saudi talents as either important or very important. On the basis of failure to complete open-ended answers, similarities arise from the study of Kuznetsov and Jacobs (2015). Indeed, it is clear that the respondents have made the institutional determinants work following the adjustments carried out without receiving substantial formal pressure.

On this point, lack of adaptation on behalf of the British MNEs is not the major problem. The study between Germany and Britain demonstrated that when the cultures and behaviours of the firms are similar, it takes less effort and resources to adjust to the political, cultural, social, and economic differences of the host country (Kuznetsov and Jacobs, 2015). The problem may be the vast differences between the KSA, in particular the religious position the Kingdom has. While there are certainly differences and acceptance to a great degree of the differences, it is difficult to absorb the nuances of the religious differences. When considering this in a larger sense, a person would observe similar obstacles while learning about the Chinese, German or Scandinavian cultures. Capitalism is a topic that covers the issues of adaptation and in this case, the effort is to view it at a firm level versus a more macro approach.

In reference to the index of institutional impact developed by Kuznetsov and Jacobs (2015), it would not have been prudent to use this index while carrying out this study since it translated qualitative data into quantitative forms. The lack of participation in the qualitative portion of the survey kept the specific details unique to each of the MNEs from being analysed in a quantitative manner. Even one or two fully completed surveys could have shared valuable information regarding the mind-set of the respondent on the obstacles in particular. Furthermore, the study failed to determine the locational avoidance specifically. The findings did not have the opportunity to delve deeper into this issue to determine if there was a connection with the OLI framework.

Kang (2006, p. 3) addressed the issue of varieties of capitalism approach and researched in depth political economy, economic sociology, management studies, and corporate social responsibility (CSR). While there are applicable limitations in the study, a single viewpoint of a quantitative method does not assist in understanding the VoC theory in this case. In fact, to fully understand the VoC theory's impact, a person needs to have qualitative input as it helps in providing background and support of the quantitative data's meanings. Throughout the discussion of the findings, the lack of qualitative data was often mentioned. The reason for this repeated mentioning was to put more emphasis and a better understanding of the findings. During the research, it was discovered that most of the respondents chose 'not sure' as their answer in the institutional factors. In Table 8.2 below, the institutional factors are listed with the number of 'not sure' responses. The last two boxes indicate whether the majority of the responses were in the category of 'satisfied' or 'dissatisfied'.

Table 8-2 Institutional Factors: Not-Sure category

Institutional Factor	Not Sure	Very Dissatisfied / Dissatisfied	Satisfied /Very Satisfied	Nearly Even
Trade regime restrictiveness	8			X
Tariff barriers	37		X	
Customs regulations	36		X	
Business regulatory consistency in dealing with the government	2	X		
Corporate tax	3		X	
Financial incentives	19		X	
FDI – related guarantees	30		X	
Quality of public administration	0	X		
Upholding of property rights	17	X		
Impartiality of laws and regulations affecting economic activity	5	X		
Enforcement by the legal and judicial system	6	X		
Influence of Islamic laws	54			X
Equity of public resource use (access to services and opportunities)	3		X	
Equal access for men and women to human capital development	18		X	
Equal status and protection under the law for men and women	27		X	
Efficiency of the local government administration	4	X		
Attitude of local government towards your company or business	3	X		
Bureaucracy	3	X		
Corruption	6	X		
Transparency	17	X		
Favouritism	18	X		
Accountability	21	X		

Social stability	3		X	
Economic stability	2		X	
Political stability	1		X	
Terrorism effect on your business	18		X	
Influence of tribal culture	29	X		
Cronyism (Wasta)	4	X		
Trust (how trustful you find the Saudi environment)	3	X		
Trust by Saudi government officials towards your business	10	X		
Your trust in Saudi government officials	2	X		
Intellectual property rights protection	8	X		
Protecting foreign investors	7	X		
Proximity to firms in the same or complementary sector	4		X	
High industrial concentration (industrial park and clusters)	8		X	
Attitude of the people / local community towards your company or business	0		X	
Cooperation between your company and local institutions	2		X	
Corporate social responsibility (CSR) between your company and local institutions	13	X		
Saudisation policy and enforcement	0		X	
Coaching, mentoring, training and developing Saudi talent	0		X	
Keeping a Saudi – friendly work environment	0		X	
With differences in organizational frameworks, cultures and practices between the local office and the parent-company. How satisfied are you with the developments of new routines and new forms of governance practiced locally or differently from home office practices?	9		X	
Knowledge and technology transfer for the advancement of knowledge to the community (trade symposium, expositions, sponsored lectures and seminars)	5	X		
Knowledge and technology transfer for the advancement of knowledge to the Saudi nationals on more particular terms such as training and education	2	X		
Introducing new approaches and applying them to the local context	10	X		
Experimenting new approaches and applying them to the local context	9	X		
The role of language in doing business in the KSA	1		X	
The use of company – funded training programmes to improve the language skills of employees	12	X		
Entering into partnership with choice advocacy – driven organisations	8			X
Volunteering feedback and holding periodic consultations with the KSA General Investment Authority (SAGIA)	14	X		
Bilateral agreement to promote or protect FDI and trade	8	X		

Source: Author

The data collected and analysed in the table above represents a number of ‘not sure’ responses and little information as to why the respondent has doubts. A number of assumptions accumulate, for example, whether the question was unclear. According to the collected information, the influence of tribal culture had 29 ‘not sure’ responses and influence of Islamic laws had 54 ‘not sure’

responses. Indeed, a quick glance of the questions by someone may lead to the comment that they appear rather simple and easy to understand. For instance, the question that requires a person to explain the level of satisfaction regarding Islamic laws and tribal influences seems straightforward. One has to ask if the lack of definitive answers is based on fear of answering truthfully for fear of reprisal. While the survey was anonymous and their answers would not be used for other purposes other than that which was explained in the informed consent, any indication of bias or prejudice could negatively affect them on a personal or corporate level. Without follow up with the open-ended questions or face to face interviews where the interviewer could gain additional information via the words and non-verbal communication, the researcher would find it hard to find answers.

The categories where a low number of 'not sure' answers exist include the attitude of the people/local community towards your company or business is zero as is the Saudisation policy and enforcement; coaching, mentoring, training and developing Saudi talents; keeping a Saudi-friendly work environment; and quality of public administration. A number of responses also had three or less or 'not sure' responses indicating that understanding the questions was not the problem, but comprehending what the question was asking.

In addition, it could be noted that the varieties of capitalism as well as the factors that work for and against the KSA were all covered within this study. However, using the word democracy was poorly addressed in the study. Therefore, it was inappropriate to introduce the word democracy into the survey, as the questions focused on elements that are relevant to the Saudi government such as the influence of Islamic laws. The area of religion is always a difficult subject to discuss, be it, Christianity, Judaism, or Islam. Individuals portray different emotions in relation to the topic since some are devoted members while others are non-religious and each respects the others views and decisions. This is not a commentary on any religion being better or worse, but simply to acknowledge or highlight the level of comfort experienced when talking about religion. Religious discussion occurs in every location around the world and often times, individuals avoid discussing religion and prefer demonstrating the basic considerations required by law to recognise their right to be protected from prejudice against their religious beliefs. For example, it would be wrong to deny a person, job promotion or a position within a company based on their religious beliefs. However, although different individuals may be religious to a certain degree, most would refrain

from talking about their background and religion. Additionally, to discuss religion without full knowledge or understanding of it is often not encouraged, so as to avoid the risk of intimidating others.

Furthermore, there is the fear of being unable to accept certain elements of the practice. None is more evident of the fear by those who do not know or fully understand than Islam. Due to the fact that the respondents are British MNEs and most likely not Islamic, an assumption that fear of discussing in too much detail any factors that may come close to not understanding, not fully accepting, or otherwise wishing to explain the issues faced that may be seen as unaccepting of Islam. According to Pew Global (2005), there is a perception issue that exists as it relates to Islam and terrorism. This is not the same as prejudice but rather a perception and as such, a wariness of Islam in general. The belief that Islam in government is playing an ever-increasing role in politics is growing and could act as a deterrent for people to speak out against their concerns or questions of Islam and the role it plays in MNEs.

8.4 Summary

In brief, this chapter provides crucial insights regarding the interpretation of the findings in relation to the existing body of knowledge. In particular, discussion has allowed the researcher to answer the research question, which is a clear indication that the specific objectives have been achieved. The inclusion of previous findings from other researchers has provided the much needed platform for the comparison between the previous findings and the results of this study. The assessment of previous studies that covered business environment outside the KSA is a clear indication of how valuable the new findings are. On the same point, it is worth noting that business environments tend to vary from one country to another depending on various internal and external factors such as culture, politics and security. These factors play a significant role in influencing the decision of foreign investors to consider a particular region or country. Hence, the discussion in this chapter provides crucial insights regarding the country-specific factors. In other words, discussion provides the much-needed empirical pieces of evidence regarding a greater understanding and appreciation of the institutional determinants in the KSA. Therefore, it is possible to draw country-specific conclusions and recommend solutions that are tailored specifically for the Saudi business environment.

Chapter 9 : Conclusion

9.1 Introduction

This chapter summarises the findings of this study and its contribution to the existing literature and knowledge in this area. Following this, implications and recommendations are presented. This is followed by the suggestions for further research in this area. A final summary is presented in the concluding section.

9.2 Summary of Main Findings

In summary, the discussion chapter has sufficiently addressed the research question using the findings derived from Chapter Seven. Evidently, the majority of the determinants to invest in the KSA are similar to those found in other countries. Concerns about organisational structure, ownership advantage, internalisation advantage, location advantage, environment, trust, intellectual property rights, tariffs, corporate taxes, and many others apply in other countries as well. The impression of the person answering the questions on the survey could have been based on perception of their role within the company. In cases where the participant answering the questions works in the human resource side of the company, they would reflect on some issues that affect their segment of responsibility as most important in formulating their decision as to what makes the determinant positive or negative in their decision for FDI in the KSA. One may question whether these individuals are wrong in how they determine the factors that come into play with FDI. The reality however is that the issue is not so clear cut. It is not simply one person's view on whether to venture into another country with the intention of investing. It is a business decision based on a number of factors to various degrees of importance as seen in the responses of the survey participants.

In addition, there was no single factor that made a definitive statement regarded as being the most important and conversely, nor the least important. This may in fact, have been due to the options available for their answers. With the number of not sure responses, it was difficult to determine whether the respondents lacked the understanding of the question, whether the answers were fully applied, or they knowingly refused to answer the questions with a direct positive or negative

answer. It is a major concern of not knowing the respondents' reasons for their answers and how the reasons would affect the results of this study. Moreover, there would be a need for change in the 'not sure' answer option to '*not applicable*' to give them an option that is outside the positive/very positive and negative/very negative framework. Allowing for 'not applicable' would at least identify if that determinant matters to their situation at all. Another possible answer option that would have clarified the responses more would be to add 'neutral' as a sixth option. In this study, factors that the respondents found dissatisfaction in or very important to their decision to invest in the KSA were as follows:

Institutional Avoidance Factors

- Business regulatory consistency in dealing with the government
- Quality of public administration
- Upholding property rights
- Impartiality of laws and regulations affecting economic activity
- Enforcement by the legal and judicial system
- Efficiency of the local government administration
- Attitude of local government towards your company or business
- Bureaucracy
- Corruption
- Transparency
- Favouritism
- Accountability
- Influence of tribal culture
- Cronyism (Wasta)
- Trust (how trustful you find the Saudi environment)
- Trust by Saudi government officials towards your business

Institutional Adaptation Factors

- Proximity to firms in the same or complementary sector
- High industrial concentration (industrial park and clusters)
- Attitude of the people / local community towards your company or business
- Cooperation between your company and local institutions
- Saudisation policy and enforcement
- Coaching, mentoring, training and developing Saudi talents
- Keeping a Saudi-friendly work environment
- With differences in organisational frameworks, cultures and practices between the local office and the parent-company. How satisfied are you with the developments of new routines and new forms of governance practiced locally or differently from home office practices?

Institutional Co-evaluation Factors

- The role of language in doing business in the KSA
- The use of company-funded training programmes to improve the language skills of employees

The above list includes those factors that the respondents found dissatisfaction in or very important to their decision to invest in the KSA. This provides a list of factors for the KSA to focus their attention on while reviewing their policies. In fact, they would assist in bringing FDI into their country. The information provided would act as a platform to help the KSA government to determine their willingness to be open minded in the process of seeing their areas of strength as well as recognise the areas that need strengthening.

The strengths and weaknesses of any country could be easily found through intensive research and the determination of the research. In this study, the intent was to identify the institutional factors that are valued by the British MNEs. These are as follows:

- The role of language in doing business in the KSA

- The use of company-funded training programmes to improve the language skills of the employees
- Proximity to firms in the same or complementary sector
- High industrial concentration (industrial park and clusters)
- Attitude of the people / local community towards your company or business
- Cooperation between your company and local institutions
- Saudisation policy and enforcement
- Coaching, mentoring, training, and developing Saudi talents
- Keeping a Saudi-friendly work environment
- With differences in organisational frameworks, cultures and practices between the local office and the parent-company. How satisfied are you with the developments of new routines and new forms of governance practiced locally or differently from home office practices?

The above results demonstrate the need to look at those factors that are ‘very important’/ ‘important’ to the MNEs but also to review the less important ones to determine why it is important to some, but not the majority. It is not clear whether this is due to the type of business involved or the length of time in the country.

9.3 Research Contributions

Despite the numerous advantages of FDI on different countries such as Singapore, HK, China, and Malaysia, little research has been done on FDI in the KSA (Roberts and Almahmood, 2009). Hence, it is hoped that this research will help to fill an important gap. The existing limited research done on FDI suggested that FDI assisted in the development of some industries (Hegger, 2003). According to Saidi and Rachdia (2015), FDI in developing nations helps to spur the available empirical economic growth.

For the purposes of stability and sustainable growth in the KSA, FDI is required in both imports and exports to promote a variety of industries. This research seeks to identify what institutional factors are being adapted and valued by British MNEs currently operating in the KSA. There is a need to understand the various factors that encourage FDI inflows into nations, and why some countries are often successful when compared to others, when attracting this important investment tool (Collins 2013). The intent is for policy makers to improve future regulations and policies to attract investments from foreign nations. A number of studies have been conducted on the issue of inflows into nations, yet the views and consensus were not conclusive. A significant lack of widely accepted factors and determinants that can explain the different determinants of FDI in nations exists (Saidi and Rachdia, 2015). This study intends to close that gap.

In the KSA, some factors have been identified that lead to a low inflow of FDI. They include; exchange rates, trade barriers, costs of labour and trade balance. Tax has been identified as both positive and negative at the same time. The unavailability of a set of accepted and widely used theories on FDI complicates the matter causing a need for research to ascertain the determinants of FDI in the KSA.

The major contribution of this research is to have a clear understanding of the effects of institutions on FDI policy (Asiedu, 2006). In this context, there is limited empirical work completed on the FDI policy working with the institutions and its effects on inward FDI in the MENA region (Asiedu, 2006 and Trevino et al, 2008).

The NIE theory, specifically the work of North and Ostrom, provides a better understanding of how countries can attract more FDI and some of the institutional elements that affect the choice of location made by the MNEs. The work of North in the field of NIE has been used widely on major business issues internationally (Grosse and Trevino, 2005). However, the NIE methodology has not been fully used in the KSA to study the effects of FDI policy and how the institutions work when it comes to the applications for licenses for inward FDI. The majority of literature has focused on the formal institutional factors, and in most cases, the use of cultural dimensions to focus on informal determinants (Li and Filer, 2007). For this reason, the role of informal institution in FDI has received little attention in the literature with many studies focusing on the formal

institutions and their effect on FDI flows (Li and Filer, 2007; Ali et al, 2010; Pajunen 2008). According to Williamson (1991), informal institutions are treated as exogenous forces which may change the benefits of using the formal structures. For this reason, the study takes into account the role of formal and informal institutional factor since they both influence the motives of MNEs engagement in FDI.

To summarise this analysis, it is significant to acknowledge that institutional factors remain relevant in determining insider and outsider status. With regards to the MENA region, the existing literature is quite limited and lacks empirical support of the stated factors. This provides the impetus and rationale for the existing research and underlines its contribution to the existing literature.

There are also a few other significant contributions that can be provided by this study: firstly, in its contribution towards understanding FDI, which can promote economic vibrancy. This can also help the KSA to achieve the Saudi vision 2030, whose principal objective is to attract further FDI inflows to help diversification of the economy, away from its dependency on oil. Secondly, the findings from this study can be used by CEOs in MNEs to gain an appreciation and understanding of the environment in the KSA. This includes MNEs that are already operating in Saudi market and/or those that may be looking to invest in it in the future.

9.4 Policy and Managerial Implications and Recommendations

The implications of this study are the differences in the cultures and the impact it has on the adaptation abilities as MNEs. The study demonstrated similarities to the research done on the relationship between Germany and Britain as well as the differences when the culture, political, social and economic aspects drift apart. The similarities or differences do not indicate that there is a particular system which is performing better than the other, or that others are faced with difficult situations or challenging moments when compared. The commonalities are present and most countries suffer the same challenges, such as corporate taxes, tariffs, trade regime, economic stability and others. These are universal issues and can occur in all host countries indicating the problem may not be country specific but generalised issues. Often when a company seeks to invest

in another country, the probability is that the environment is favourable and business friendly among other factors. This indicates that the institutional factors are considered, but possibly not universally perceived as negative. With the numbers of higher negative perception being only 5 more than the lower negative perception, it presents an impression of being equally distributed between them both. This is important when one thinks about the institutional complementarities, where the institutional subsystems such as capital and labour that provides an opening for the 'VoC approach of correctly calibrated sub-systems' (Kang, 2006, p. 5). The subsystems include financial systems, labour market, training systems and inter-firm relations, all of which received lower negative perceptions. The assumption is that a MNE will choose a host country that offers advantages the parent company seeks. With the number of institutional factors identified in this study's survey, it is valuable to see the comparative institutional advantages have enhanced the viability of the MNEs in the KSA.

The implication is that while there are a larger number of higher negatively perceived obstacles in FDI in the KSA, there are slightly lower negatively perceived factors. Indeed, this demonstrates that the MNEs have the ability to adjust their willingness and power to carry out business activities in the KSA. While this is a positive reinforcement of the success of the KSA's progress in attracting MNEs there is still much to be done to improve the attractiveness of the country over other Middle Eastern nations. Many of the assets that the KSA possesses include the Saudi workforce, as a number of factors related to the Saudi language, training, and workforce have lower negative impressions. This supports the VoC's argument of institutional complementarities delivering different forms of behaviour and investment opportunities. At the firm level one sees this happening on a firm by firm basis rather than just at the national or state level.

The KSA has a number of factors that provide the potential that foreign direct investors are looking for, if this were not true, there would be no FDI taking place. However, there is always room to improve and this study provides the guide to the areas that require more attention and as such more policy review and revision, if the intent is to continue to improve the FDI environment in the KSA.

In particular, the logistic regression has demonstrated the specific factors that the KSA needs to consider. For example, avoiding bureaucracy, terrorism threats, and cronyism will continue to

encourage the MNEs to expand their operations in the KSA. The pool of participants was limited to 103 out of hundreds of others and only focused on British MNEs. While this representation is focused purposely on British MNEs, one can see the results as a reflection of what is needed to attract more FDI from British companies. Yet, the question that needs to be considered is whether the KSA only want to increase their FDI inflows with the British, or with all countries that can bring FDI inflows into the country. Obviously, countries would be willing to be open to all potential MNEs and as such, the study presents a valuable contribution to the understanding of the factors important to Western countries. It is this designation that provides the value overall to the KSA's FDI environment. The issues that were analogous between Britain and Germany's MNEs in the study previously cited, highlighted that the differences between western countries are significant. Moreover, this indicates that the differences between western countries and developing countries will be significant such as the differences between Muslim countries and predominately non-Muslim countries.

In addition, the ability to retain the qualities that make one's home country unique in regards to their culture, language, religion, as well as political and government practices, is important. Furthermore, good relations and efficient communication helps nations to work together in a peaceful manner across the globe. The study gives a clear demonstration of the importance of being open to other countries interested in engaging in business activities as well as investments. The active investment means they will seek to improve their company within the host country. Similarly, there would be more job opportunities, growth of economy and increased revenue for the country as well as the development of a long term and profitable relationship with the host country. To continuously improve the relationship between existing MNEs is essential to successful FDI, but one also needs to view the environment as it is observed by new companies and other interested countries.

Finally, comparative studies (i.e. comparing preferences between UK and US MNEs towards the KSA FDI programmes) could not be possible until the first set of variables and differentials become available. Hence, the completed outcome is expected to contribute to the body of knowledge by means of generating primary data that could be used as supplemental to the other half of a cross-foreign country analysis or to the third part of a triangulation involving data from

the KSA, the UK and a third country. Furthermore, the recommendations this study will eventually draw may be considered as referential bases for concept development and institutional reforms for governmental agencies promoting FDI such as the UKTI, the SCIT and the SAGIA.

9.5 Limitations of the Study

A number of challenges and limitations became recognisable throughout the study and in particular while receiving the responses from the participants. The focus was on British MNEs and the information received about the nature of the company being of British origin proved wrong. A significant number of British identified MNEs were of other origin and had to be omitted from the study results. To address this issue in the future, additional pre-screening research is needed to determine the origins of the company through a quick phone call or sending an email to qualify the potential participant. The participants did not complete the qualitative portion of the questionnaire despite the inclusion of the questions after the closed-ended questions. A consideration for the next survey is to make all questions mandatory to answer, change the order of the sections with the open- and closed-ended questions, or to use the qualitative questions as a follow up survey or face-to-face interview. While making all the questions mandatory can lead to fewer participants completing the survey in its entirety, testing this idea in a pre-test format would indicate if this is a valid method to improve the number of the complete responses rate. The second idea of changing the order of the questions by having a section of closed-ended, then open-ended and then another section of closed-ended answers is a valid one as it would break up the routine by keeping the participant engaged in the process. The last suggestion to use as follow up with randomly selected participants or the entire group can be costly if chosen to have the follow up as face-to-face interviews. Sending all a follow up survey may work if there is mention of the study being a multiple part process in order to limit the time commitment at one time. In other words, letting the participants know there are three parts of the survey, (1) demographic survey to use as a filtering process to ensure the participant fits the sampling criteria necessary for validity and reliability of the study; (2) the second part is either qualitative or quantitative portion of the survey; and (3) the second set of questions have not been previously presented.

9.6 Suggestions for Further Research

The suggestion for further research begins with an emphasis on the need for a deeper investigation into the firm level thoughts of the MNEs as to what they specifically adapted to and what was most challenging for their firm. This would require focusing on more face-to-face interviews with British MNEs. The interviews could provide a good platform for an effective dialogue that would help in revealing more of the background of their entry strategy into the KSA. Another consideration to the face-to-face interviews would be to determine the duration in which the interviewee has been with the MNE in that position. Similarly, understanding the length of stay in the KSA is critical.

Since Islam is a strong influence in business in the KSA as well as in other areas of life in the country, it would be beneficial for a study to research the perception of Islam by MNEs in both Islamic and non-Islamic countries, as it relates to business relationships. To determine the perceptions would allow for tools to develop as well as theoretical groundwork for the application of MNEs in Islamic countries. Besides, this has the potential to allow the global community to feel at ease and have accessibility to these nations where the uncertainty of the differences, as well as the perceptions, should be addressed to benefit both sides of the MNE relationship. The world is constantly changing and with the influence of media when terrorism or extremist behaviour strikes the headlines, it could have a negative impact on a nation not involved and not supportive of the negative behaviour. The reason this issue of great importance is due to the fact that the majority of the factors that determine a decision to enter the KSA market are similar to any other country. Breaking this last barrier of the perception of Islam is necessary to make the Saudi environment attractive to any company considering FDI.

A second recommendation for further research is to determine which of the three categories: institutional avoidance factors, institutional adaptation factors, or institutional co-evaluation factors has the greatest effect on the decision to invest in the KSA. Other issues to consider linked to this are do the category of the factors matter more than the individual factor and do they differ from country to country or the type of country (i.e. Western, developed, developing, or Muslim). The reason for this line of inquiry is due to the differences becoming smaller within the global

community. Business is important at any level and the bottom line or the most crucial part is to keep expenses low and profits high. All the other factors such as those listed in the institutional avoidance, adaptation, or co-evaluation spell out the elements within a country that are effective or ineffective in regards to how they are viewed individually by company. This does not mean in any manner that the factors do not matter or have significant influence on the decision to invest in a host country, but as it was demonstrated in this study, the variances between what people see as important or irrelevant is great. What is very important to one company is very irrelevant to another company, as it depends on the type of country, the management style, and the ability to adapt to whatever environment one is in to make money.

The above results demonstrate the need to look at those factors that are ‘very important’/ ‘important’ to the MNEs but also to review the less important ones to determine why it is important to some, but not the majority. It is not clear whether this is due to the type of business involved or the length of time in the country. Additional research into the reasons behind the importance or lack of importance would shed a considerable amount of knowledge in this area. The knowledge gained could help the government of the KSA in ways that would make their country more attractive as compared to similar countries offering the same resources such as oil.

9.7 Summary

This study has provided an interesting examination into the FDI of British MNEs in the KSA. Throughout this process the important factors needed in the decision making process have become more clear. This chapter presented a summary of the study’s main findings, implications and recommendations as well as suggestions for further research.

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Appendices

Appendix (1): The 2000 Foreign Investment Act

The following information as was taken from Royal Embassy of The KSA, Washington DC https://www.saudiembassy.net/about/country-information/laws/Foreign_Investment_Act_and_Executive_Rules.aspx in 2016.

Article 1:

The following expressions and terms shall have the meaning ascribed beside each, unless the context deems otherwise:

THE COUNCIL: The Supreme Economic Council.

BOARD OF DIRECTORS: The Board of Directors of the General Investment Authority.

THE AUTHORITY: The General Investment Authority.

THE GOVERNOR: The Governor of the General Investment Authority and Chairman of the Board of Directors.

FOREIGN INVESTOR: The natural person of non-Saudi nationality or otherwise the body corporate, where all partners are non- Saudi nationals.

FOREIGN INVESTMENT: Investment of Foreign Capital in a licensed activity under this Act.

FOREIGN CAPITAL: The Foreign Capital in this Act shall mean, for example but not limited to, the following funds and rights as long as they are possessed by a Foreign Investor:

- Money, securities and commercial instruments.
- Foreign investment profits if they are invested to increase the capital, expansion of existing projects or establishment of new projects.
- Machinery, equipment, supplies, spare-parts, means of transportation and production requirements relevant to the investment.
- Legal rights i.e., licenses, intellectual properties, technical know-how, administrative skills and production techniques.

PRODUCTION FACILITIES: Projects for the production of industrial and agricultural products (plant and animal).

SERVICE FACILITIES: Service and construction projects.

THE ACT: The Foreign Investment Act.

THE RULES: The Rules of Implementation of this Act.

Article 2:

Without prejudice to the requirements of regulations and agreements, the Authority shall issue a license for a Foreign Capital Investment in any investment activity in the Kingdom, whether permanent or temporary.

The Authority shall make a decision about the investment application within thirty days after the completion of documents provided for in the Rules. In the event that the specified period elapsed without the Authority rendering a decision about the application it shall be obligated to issue the required license for the investor.

If the Authority shall deny the said application within the specified period, then the pertinent decision of denial shall be justified, and the party against whom the decision of denial had been issued shall have the right to contest such decision according to regulations.

Article 3:

The Council shall have the authority to issue a list of activities excluded from Foreign Investment.

Article 4:

Subject to Article 2, the Foreign Investor may obtain more than one license in different activities, and the Rules shall specify the necessary measures.

Article 5:

Foreign Investments licensed under the provisions of this Act, may be in either of the following forms:

1 - Facilities owned by a national and a Foreign Investor.

2 - Facilities wholly owned by a Foreign Investor.

The legal form of the Facility shall be determined according to regulations and directives.

Article 6:

A project licensed under this Act shall enjoy all the benefits, incentives and guarantees enjoyed by a national project according to regulations and directives

Article 7:

The Foreign Investor shall have the right to reallocate his share as derived from the selling of his equity, or from the liquidation surplus or profits generated by the facility, out of the Kingdom or

to use by any other legal means, and he shall also be entitled to transfer the required amounts to settle any contractual obligations pertaining to the project.

Article 8:

The foreign facility licensed under this Act shall be entitled to possess the required real estates as might be reasonable for practicing the licensed activity or for the housing of all or some of the staff as per the provisions for non-Saudi national's real estate acquisition.

Article 9:

The Foreign Investor and his non-Saudi staff shall be sponsored by the licensed facility.

Article 10:

The Authority shall provide all those interested in investment with all necessary information, clarifications and statistics, together with all services and procedures to facilitate and accomplish all matters pertaining to the investments.

Article 11:

Investments related to the foreign investor shall not be confiscated wholly or partially without a court order, moreover, it may not be subject to expropriation wholly or partially except for public interest against an equitable compensation according to Regulations and Directives.

Article 12:

(a) The Authority shall inform the Foreign Investor in writing when violating the provisions of this Act and its Rules in order that such violation be rectified within a period of time determined appropriate by the Authority for rectifying such violation.

(b) Without prejudice to any greater penalty, the Foreign Investor under the existence of the violation shall be subject to any of the following penalties:

1. With hold all or part of the incentives and benefits allocated for the Foreign Investor.
2. Imposition of a financial fine not exceeding 500,000 SR (Five hundred thousand Saudi Riyals).
3. Cancellation of the Foreign Investment license.

(c) The imposition of the penalties referred to in paragraph (b) herein above, is rendered by a resolution by the Board of Directors.

(d) A petition against the penalizing resolution may be brought before the Board of Grievances according to its regulations.

Article 13:

Without prejudice to the Agreements in which the Kingdom of The KSA shall be a party of:

- Disputes arising between the Government and the Foreign Investor relating to his licensed investments under this Act shall as far as possible be settled amicably, and if this shall prove to be impossible, then the dispute shall be settled according to regulations.
- The disputes arising between the Foreign Investor and his Saudi partners relating to his licensed investments under this Act shall as far as possible be settled amicably, and if this shall prove to be impossible, then the dispute shall be settled according to regulations.

Article 14:

All Foreign Investments licensed under this Act shall be treated in accordance with the Tax code valid in The KSA and its amendments.

Article 15:

The Foreign Investor undertakes to abide by all regulations, rules and directives valid in The KSA together with international agreements in which it is a part thereof.

Article 16:

The implementation of this Act shall not prejudice the vested interests of Foreign Investments that legally existed before this Act shall come into force, however, these projects in conducting their activity or increasing their capital shall be subject to its provisions.

Article 17:

The Authority shall issue the Rules, which shall be published in the Official Journal, and shall be effective as of the date of its publishing.

Article 18:

This Act shall be published in the Official Journal, and shall be effective thirty days after its publishing, and shall invalidate the Foreign Capital Investment Act issued by the Royal Decree no. (M/4), dated 2/2/1399 (H), together with any contradicting provisions.

Appendix (2): The Executive Rules of the Foreign Investment Act

The following information was taken from the Royal Saudi Embassy in 2016
https://www.saudiembassy.net/about/country-information/laws/Foreign_Investment_Act_and_Executive_Rules.aspx

First: Definitions

Article 1

For the purpose of implementing these Executive Rules the following terms and expressions shall have the meanings indicated opposite thereto, unless the context requires otherwise:

The Council - The Supreme Economic Council

The Board of Directors - The Board of Directors of the Saudi Arabian General Investment Authority

The Chairman of the Board of Directors - The Chairman of the Board of Directors of the Saudi Arabian General Investment Authority

The Governor - The Governor of the Saudi Arabian General Investment Authority

The Authority - The Saudi Arabian General Investment Authority

Foreign Investor - A natural person who is not a Saudi national, or a corporate entity, partners thereof are not Saudi nationals

Foreign Investment - Investment of Foreign Capital in an activity licensed under the Act and the rules

Foreign Capital - For purposes of the Act and the Rules, Foreign Capital shall mean, but is not limited to the following assets and rights so long as they are held by a Foreign Investor:

1. Cash, securities and commercial papers.
2. Foreign Investment profits if reinvested to increase capital expand existing investment entities or establish new ones.
3. Machinery, equipment, fixtures, spare-parts, means of transportation and production requirements related to the investment.
4. Intangible rights such as licenses, intellectual property rights, technical know-how, administrative skills and production techniques.

The Act - The Foreign Investment Act

Products Facilities - Projects for the production of industrial and agricultural products (crops and livestock)

Service Facilities - Service and contracting projects

The Rules - The executive Rules of Foreign Investment Act

The Center - Investors Service Center Stipulated in Article (9) of the Saudi Arabian General Investment Authority's Act

Second: The Fields of Investment

Article 2

The Authority is authorized to issue a license for foreign capital investment in the Kingdom for any investment activity whether permanent or temporary with the exception of the activities excluded under the third article of the Act.

Article 3

The Board of Directors shall periodically review the list of activities excluded from foreign investment in order to shorten it and submit it to the Council to consider its approval.

Article 4

Foreign Investments licensed under the provisions of The Act and The Rules may be in either of the following forms:

1. Entities jointly owned by a national and a foreign investor.
2. Entities wholly owned by a foreign investor.

Third: Benefits, Incentives and Guarantees

Article 5

Foreign Investment projects shall enjoy all the benefits, incentives and guarantees extended to national projects, including the following:

1. The incentives stipulated in the Protection and Promotion of National Industries Act issued by Royal Decree No. 50 dated 23.12.1381 H.
2. Ownership of real estate required to carry out the investor's licensed activity or for his residence and his staff housing according to the provisions of the Regulation of Ownership and Investment in Real Estate by Non-Saudis issued by Royal Decree No. M/15 dated 17.04.1421 H.

3. The benefits ensuing from agreements of avoiding double taxation and agreements of promotion and protection of Investment which are signed by the Kingdom.
4. Prohibition of any full or partial confiscation of investment without a court order or subjecting them to expropriation wholly or partly except for the public interest and against fair compensation.
5. Foreign investors are entitled to repatriate their share that is derived from the sale of his equity, from surplus of liquidation or the profits generated by the entity and to dispose of it by any legal obligations. He is also entitled to transfer required amounts to fulfill any contractual obligations in respect of the project.
6. Shares can be freely exchanged amongst partners and others.
7. The licensed entity is entitled to sponsor the foreign investor and his non–Saudi staff.
8. The licensed entity is entitled to obtain industrial loans in accordance with the regulations of The Saudi Industrial Development Fund.
9. The losses incurred by the entity may be carried forward to the following years and will not be calculated at tax settlement of the years during which the entity reaps profits.

Fourth: Licensing Conditions and Criteria

Article 6

The conditions for granting a Foreign Investment license by The Authority shall include the following:

1. The investment activity to be licensed should not be in the List of excluded activities from Foreign Investment.
2. The intended Product should comply with the Kingdom's rules and regulations, or the laws of the European Union or the United States of America in the absence of those laws, in terms of standards and specifications, raw materials and production processes.
3. The license applicant should be a natural or nominal person who has come to the Kingdom for investment.
4. The Foreign Investor should not have been convicted in the past for substantial violations of the provisions of The Act.
5. The Foreign Investor should not have been convicted in the past of financial or commercial violations whether in the Kingdom or in other countries.

6. The grant of a license shall not result in the breach of any international or regional agreement to which the Kingdom is a party.

Article 7

The Foreign Investor may obtain more than one license to practice the same activity or a different activity(s) subject to the following conditions:

1. The conditions set forth under Article (6) of The Rules must be satisfied.
2. Licensing applications to practice the same activity submitted by natural or moral persons shall be considered as expansion of established projects applications.
3. The Board of Directors will reconsider these conditions periodically or when deemed necessary.

Article 8

The Foreign Investor may purchase local or foreign investment entities or shares thereof subject to the conditions set forth in Article (5) and Article (6) of the rules.

Fifth: Licensing Procedures

Article 9

The Authority shall prepare an investment guide containing a description of the procedures for obtaining both permanent and temporary licenses and their modifications, as well as the forms, required documents to obtain the licenses and any information needed by the investor. The guide shall also list the incentives, benefits and guarantees to be enjoyed by The Foreign Investor. In addition, the guide must contain substantial information about the following:

1. Foreign Investment Act, its rules and supplementary decisions.
2. The Statute of the General Investment Authority and the Executive Rules of the General Investment Authority.
3. The Regulation of Ownership and Investment in Real Estate by Non-Saudis.
4. Protection and Promotion of National Industries Act.
5. Labor and Workmen Act and Social Insurance Act.
6. Zakat, Tax and Customs Regulations.
7. Legal Sharia Procedures Act.
8. Penal Procedures Act.
9. Legal Profession Act.
10. Companies Regulations (Commercial Register, Trade Fraud, Banks Monitoring).

11. Intellectual Property Protection Regulations (Trade Marks Act, Copyrights Protection Act, Patents Act).

12. Residence Act.

The guide shall also contain special sections on the customs and traditions observed in the Kingdom and shall be updated regularly.

Article 10

Applications to obtain a foreign investment license shall be submitted to the Applications Reception Unit of The Center, using the designated form. The application must contain all the necessary information; satisfy all documentation requirements cited therein and be signed by the applicant or his duly authorized representative. The Center shall notify the license applicant by a written or electronic receipt note including the number of the application record and its date.

Article 11

The Authority may accept complete licensing applications and the required attached documents that are delivered by post, e-mail or fax. The licensing decision may be issued accordingly; provided that it will be delivered to the applicant only after The Authority receives the original documents when deemed necessary.

Article 12

Decisions on submitted applications are subject to the provisions of The Act, The Rules and the resolutions of The Board of Directors. The Governor, or his assigned delegate, shall sign the licensing decisions within thirty days. National holidays shall be excluded from the mentioned period.

Article 13

The Center shall notify the investor, by hand delivery, registered mail, e-mail or any other means, of the final decision issued with respect to his application.

Article 14

If The Authority rejects the application for a new license or the modification of an existing license, its rejection shall be justified. The foreign Investor may object to the rejection decision before The Board of Directors within thirty days effective from the date on which he is notified of the rejection decision.

Article 15

The Board of Directors shall consider the objection and reach a decision on it within thirty days from the date of its submittal. If the objection was rejected, the license applicant shall have the right to challenge the rejection decision before the Board of Grievances.

Sixth: Obligations of the Foreign Investor

Article 16

The licensed investor shall start the practical steps required for setting up the entity in accordance with the time schedule submitted by him to The Authority. The Authority shall, if The Foreign Investor shows adequate reasons for delays in the implementation procedures, extend the period specified in the schedule, provided that the extensions shall not exceed one year in total. The extension shall not exceed one year unless a decision to that effect is made by The Board of Directors.

Article 17

When The Authority does not approve the extension requests specified by the time table, and if The Foreign Investor is found not to be diligent after the extension, The Board of Directors may then revoke the license. A Foreign Investor whose license is revoked under this Article shall bear the consequences of revocation.

Article 18

Licensed entities must abide by the conditions and primary objectives upon which the licenses are issued. No modifications shall be made unless approved by The Authority.

Article 19

Owners of licensed entities shall adopt an accredited accounting system and a budget for their entities approved by an authorized accounting office. Upon request, owners of licensed entities shall provide The Authority with statistics or information in respect of their entities.

Seventh: Violations

Article 20

Authority officials, empowered by a written mandate by The Governor or his designated representative, shall have the right to monitor the implementation of the provisions of The Act and The Rules. For this purpose, they have the right to examine records and all documents relating to the investment activity and shall pinpoint violations and submit necessary reports to The Governor or his designated representative. The assigned officials shall maintain the confidentiality of the information and documents they examine.

Article 21

The Board of Director shall issue a list of violations and penalties pertaining to the violation of the provisions of The Act, The Rules, the licensing conditions and the rules of their implementation and the implementation of the penalties therein.

Article 22

The Authority shall notify the Foreign Investor in writing regarding any violation of the provisions of The Act, The Rules and the licensing conditions; and shall allow a suitable period of time, as specified by the list of violations and penalties, to correct them. If the Foreign Investor fails to implement the necessary corrections, he shall be subject to any of the penalties provided for in the list of violations and penalties.

Article 23

The Board of Directors shall form a committee consisting of at least three members, one of whom shall be a legal counselor and shall develop rules and procedures for its functioning. The responsibilities of the committee shall be to review violations of the provisions of The Act provisions and The Rules and the licensing conditions. The committee shall hear the parties accused thereof, to consider their defenses and to suggest what it sees according to what specified by The Act and the list of violations and penalties. The Board of Directors shall render the penalty decision.

Article 24

The Foreign Investor with to whom the penalty decision is issued according to Article 23 of The Rules may object to the rejection decision before the Board of Directors within thirty days effective from the date on which he is notified of the rejection decision.

Article 25

The Board of Directors shall consider the objection and make a decision on it within thirty days from the date of its submittal. If The Board of Directors confirms the penalty the license applicant shall have the right to challenge the rejection decision before the Board of Grievances within 60 days effective from the date on which he was notified of the decision.

Eighth: Disputes Settlement Committee

Article 26

The Board of Directors shall form, subject to Article 13, paragraph 2 of The Act, a committee composed of at least a chairman and two members to be named The Investment Disputes

Settlement Committee. This committee shall consider the disputes arising between the Foreign Investor and his Saudi partners in respect of a licensed investment under The Act. The committee shall work to settle the dispute amicably. In case an amicable settlement could not be reached, the dispute shall be settled through arbitration according to the Arbitration Act and its executive rules issued by Royal Decree No. (46) Dated 12.7.1403 H. This committee is the competent body to consider the dispute as stipulated in the Arbitration Act.

Appendix (3): Survey questionnaire

Institutional Determinants of British MNEs' Location Decisions in the KSA



Dear Sir / Madam,

My name is Nasser Alshareef, and I am a PhD candidate at the Business School of the Manchester Metropolitan University, United Kingdom. I am also a member of academic staff at Majmaah University, the KSA. As part of my PhD research, I have to conduct a fieldwork study that aims to identify the institutional determinants of location decisions by British-owned multinational enterprises (MNEs) towards the KSA. You are invited to participate in this study by answering the questions in this survey. Your responses are important in enabling researcher and the Saudi Government to obtain a better understanding of the obstacles facing British MNEs in the KSA. In addition, the recommendations of this study will be considered as referential bases for concept development and institutional reforms measure to the appreciation of governmental agencies promoting FDI like the UKTI, the SCIT and the SAGIA.

The questionnaire should take you about fifteen minutes to complete. The information you provided will be treated in the strictest confidence. You will notice that you are not asked to include your name in the questionnaire.

I hope that you will find completing the questionnaire enjoyable. Please return the completed questionnaire in the enclosed freepost envelope to:

Nasser Alshareef, 2 Copper Place, flat 2, Manchester M14 7FZ. United Kingdom.

Please tick one of the following:

☐ I agree to participate in this survey ☐ I do not agree to participate in this survey

If you have any questions or would like further information, please do not hesitate to telephone me on +966544788811 or email me at Nasser_nmn@hotmail.com

Thanking you very much in advance.

Researcher

Nasser Alshareef

PhD candidate at MMU

Supervision team

Prof. Hamed El- Said, www.hamedelsaid.co.uk

Dr. Agnieszka Chidlow, Link/pub/agnieszka?chidlow/5/5a2/316.

Part 1: Company Information:

- 1- **How old is your parent company?**
☐ Under 5 ☐ 5 to 10 ☐ Over 10
 - 2- **What is your parent company's nationality?**
☐ Saudi ☐ Non-Saudi, please specify
 - 3- **What is your position in this company?**
☐ CEO ☐ Manager ☐ Other, please specify.....
 - 4- **What is your nationality?**
☐ Saudi ☐ Non-Saudi, please specify
 - 5- **Which of the following would best describe your company's mode of market entry? (Please tick as many as relevant)**
☐ Wholly-owned subsidiary ☐ Equity joint venture ☐ Merger and/or acquisition ☐ Strategic alliance ☐ Reinvestment of profits ☐ Licensing ☐ Others, pls. specify:.....
 - 6- **Which sector your company is operating in?**
☐ Chemical & petrochemical Industries ☐ Service ☐ Mining, Oil and Gas ☐ Electricity, Gas and Water Supply ☐ Transport, Storage and Communications
☐ Real Estate ☐ Contracting ☐ Finance Services & Insurance ☐ Trade ☐ Other Industries, please specify:.....
 - 7- **How long has your company been doing business in the KSA?**
☐ Less than 3years ☐ 3-5years ☐ 6-10years ☐ Morethan10years
 - 8- **Which part of the KSA is your company located?**
☐ Central region ☐ Eastern region ☐ Western region ☐ North region ☐ South region
 - 9- **Any obstacle when it comes to geographical proximity between the parent company and your office?**
☐ Yes. ☐ No.
 - 10- **Does your company have more than one employment site?**
☐ Yes. ☐ No.
- No. of employment site, please indicate:
- 11- **How many people does your company employ?**
☐ 10 – 49 ☐ 50 –100 ☐ 100–200 ☐ 200–500 ☐ 500 and more
 - 12- **What is the percentage of Saudi employees in your company?**
☐ Less than 5% ☐ 5-10% ☐ 11-20% ☐ 21-30% ☐ More than 30%
 - 13- **What is your parent company's share of ownership in the local company?**
☐ less than 10% ☐ 10 -25% ☐ 26 -50% ☐ 51 -75% ☐ more than 75%
 - 14- **What type of asset has your parent company invested into the KSA?**
☐ Capital ☐ Technology ☐ Both ☐ Others, pls. specify:.....
 - 15- **Is your parent company looking to invest more capital in the future?**
☐ Yes. Please specify as percentage of capital..... ☐ No.
 - 16- **Please explain your answer to Question No. 15 in few sentences.**

Part 2: How satisfied are you with the following factors believed to affect the performance levels of British Multinational Enterprises in The KSA? Please tick (✓) in the box that best represents your opinion by referring to the scale provided.

INSTITUTIONAL AVOIDANCE FACTORS

No	Items		Very satisfied	satisfied	Not sure	dissatisfied	Very dissatisfied
	Formal Institutional Avoidance Factors						
1	Trade regime restrictiveness.						
2	Tariff barriers.						
3	Customs regulations.						
4	Business regulatory consistency in dealing with the government.						
5	Corporate tax.						
8	Quality of public administration.						
9	Upholding of property rights.						
10	Impartiality of laws and regulations affecting economic activity.						
11	Enforcement by the legal and judicial system.						
16	Efficiency of the local government administration.						
32	Intellectual property rights protection.						
33	Protecting foreign investors.						
	Informal Institutional Avoidance Factors						
6	Financial incentives.						
7	FDI-related guarantees.						
12	Influence of Islamic laws.						
13	Equity of public resource use (access to services and opportunities).						
14	Equal access for men and women to human capital development.						
15	Equal status and protection under the law for men and women.						
17	Attitude of local government towards your company or business.						
18	Bureaucracy.						
19	Corruption.						
20	Transparency.						
21	Favouritism.						
22	Accountability.						
23	Social stability.						
24	Economic stability.						
25	Political stability.						
26	Threats of terrorism.						
27	Influence of tribal culture.						
28	Cronyism (Wasta).						
29	Trust (how trustful you find the Saudi environment).						

30	Trust by Saudi government officials towards your business.					
31	Your trust in Saudi government officials.					

INSTITUTIONAL ADAPTATION FACTORS

No	Items	Very important	important	Not sure	irrelevant	Very irrelevant
	Formal Institutional Adaptation Factors					
4	Cooperation between your company and local institutions.					
6	Saudisation policy and enforcement.					
7	Coaching, mentoring, training and developing Saudi talents.					
	Informal Institutional Adaptation Factors					
1	Proximity to firms in the same or complementary sector.					
2	High industrial concentration (industrial park and clusters).					
3	Attitude of the people/local community towards your company or business.					
5	Corporate social responsibility (CSR) between your company and local institutions.					
8	Keeping a Saudi-friendly work environment.					
9	Similarities and differences between local practice and parent-company practices.					

20. INSTITUTIONAL CO-EVOLUTION FACTORS

No	Items		Very important	important	Not sure	irrelevant	Very irrelevant
Formal Institutional Co-evaluation Factors							
8	Entering into partnerships with choice advocacy-driven organisations.						
9	Volunteering feedback and holding periodic consultations with the Saudi Arabian General Investment Authority (SAGIA).						
10	Bilateral agreements to promote or protect FDI and trade						
Informal Institutional Co-evaluation Factors							
1	Knowledge and technology transfer for the advancement of knowledge to the community (trade symposium, expositions, sponsored lectures and seminars)						
2	Knowledge and technology transfer for the advancement of knowledge to the Saudi nationals on more particular terms such as training and education.						
3	Experimenting new approaches and applying them to the local context.						
4	Introducing new approaches and applying them to the local context.						
5	The role of language in doing business in The KSA.						
6	The use of company-funded training programmes to improve the language skills of employees.						
7	Formal language strategy (i.e. employ native speakers full time in your company who support trade in the UK or other foreign trade).						

Thank you for taking the time to complete this questionnaire. I appreciate your cooperation.

Appendix (4): Pre –notice letter

Dear Sir / Madam,

I am writing to you in order to ensure that certain information that I would like to send to your company reaches the appropriate person. I am a PhD candidate at the Business School at Manchester Metropolitan University, United Kingdom. I am also a member of academic staff at Majmaah University, The KSA. My thesis aims to identify the factors that affect location decision of British Multinational Enterprises (MNEs) in the KSA.

As part of my research, I am carrying out a survey for British MNEs in the KSA. I got your email address from Saudi British Trade Directory (SBTD). If you are the CEO/manager and would like to participate in this study, please just reply to this e-mail, ideally with words “will participate” in the subject header. You will then receive the questionnaire. If not, please can you suggest a contact for the CEO or manager in your MNEs. Your responses are important in enabling me as well as the Saudi Government to obtain a better understanding of the obstacles facing British MNEs in the Saudi market. In addition, the findings of this study will serve as referential bases for a concept development and institutional reform measures in order to assist the Saudi governmental agencies in their efforts of promoting foreign investment in the Kingdom, including the UKTI, the SCIT and the SAGIA. If you have any questions or would like further information, please do not hesitate to contact me.

Thank you very much in advance

Sincerely

Nasser Alshareef

PhD Candidate – MMU / UK

Mob +966544788811

Nasser_nmn@hotmail.com

Appendix (5): Template of the cover E-mail.

Dear Sir / Madam,

My name is Nasser Alshareef, and I am a PhD candidate at the Business School at Manchester Metropolitan University, United Kingdom. I am also a member of academic staff at Majmaah University, The KSA. My thesis aims to identify the factors that affect location decision of British Multinational Enterprises (MNEs) in the KSA. You are invited to participate in this study by answering the questions in this survey through following the following link:
<https://www.surveymonkey.com/r/CY6V6W6>

The questionnaire should take you about fifteen minutes to complete. The information you provide will be treated in the strictest confidence. Please note that you are not being asked to include your name in the questionnaire.

I hope that you will enjoy completing the questionnaire.

If you have any questions or would like further information, please do not hesitate to contact me.

Thank you very much in advance

Sincerely

Nasser Alshareef

PhD Candidate – MMU / UK

Mob +966544788811

Nasser_nmn@hotmail.com

Appendix (6): Template of the reminder E-mail.

Dear Sir / Madam,

A couple of weeks ago I emailed a request for you to complete a small questionnaire associated with the study identifying the factors that affect location decision of British Multinational Enterprises (MNEs) in the KSA via this link:

<https://www.surveymonkey.com/r/CY6V6W6>

The overall response so far has been good, but more information is needed to enhance the study. Please know that it takes approximately 15 minutes to complete the questionnaire, and the easiest way to do so is via the above link. You can just click on it and go straight to the questionnaire. So, if you have already completed and returned the questionnaire to me, please accept my sincere thanks. The information you provide will be treated in the strictest confidence. Please note that you are not being asked to include your name in the questionnaire.

I hope that you will enjoy completing the questionnaire.

If you have any questions or would like further information, please do not hesitate to contact me.

Thank you very much in advance

Sincerely

Nasser Alshareef

PhD Candidate – MMU / UK

Mob +966544788811

Nasser_nmn@hotmail.com