An Introduction to Dynamics of Institutional Change in Emerging Markets: Theories, Concepts, and Mechanisms

Nezameddin Faghih and Ali H. Samadi

Every moment the world is renewed,
and we are unaware of its being renewed whilst it remains.
Life is ever arriving anew, like the stream,
though in the body it has the semblance of continuity.
From its swiftness it appears continuous,
like the spark which you whirl rapidly with your hand.
If you whirl a firebrand with dexterity,
it appears to the sight as a very long fire.
Rumi (1207–1273).

we know a lot about institutions and their economic performance,
but we do not know how institutions change.
Douglas C. North (1990).

Institutions and institutional development appear to be a shared journey of humanity throughout history; the conceptual antecedents go back to Plato (1955), Adam Smith (1776), Immanuel Kant (1795) and Friedrich Hegel (1807). Nevertheless, in parallel to Douglass North's description of the concept of institution, especially in contemporary era of globalization, dynamics of institutional change are analogous to the dynamics of change in rules of the games, consisting of changes in formal written rules as well as changes in typically unwritten codes of conduct that underlie and supplement changes in formal rules, i.e., changes in the humanly devised constraints that shape the dynamics of human interaction. Nevertheless, it is essential to include various types of institutions, formal and informal, and their mutual interactions and convolutions.

Institutions and institutional development lead to a number of questions, for instance, what an institution is; how to measure institutional quality; whether institutions change or not; what institutional change would mean and envelope, e.g., improvements, decays, creation of new institutions, and/or elimination of the old ones; if institutions change, whether these changes progress slowly or rapidly; what

N. Faghih (✉)
UNESCO Chair Professor Emeritus, Cambridge, MA, USA

A. H. Samadi
Department of Economics, Shiraz University, Shiraz, Iran

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mechanisms can bring about institutional changes; etc. In the past years, many economists and socioeconomists have attempted to answer these questions and continue to explore issues that are crucial to understanding institutional change and development. Nonetheless, some fundamental questions still remain open and unresolved.

Furthermore, the evolution of emerging markets can be considered as a source for the development of international business theories and practices. Emerging markets engender the main growth opportunities in the evolving global economy and economic order. The potentials of the emerging markets have already created a change in multinational corporations. As established markets face saturation, multinational corporations turn progressively to emerging markets as main sources and opportunities for further future growth (Arnold and Quelch 1998; London and Hart 2004; Fleury et al. 2018; Faghih 2019). Thus, emerging markets demand new alignment of laws, regulations, and rules of games and impact the dynamics of institutional change.

This book seeks to bridge an important research gap by questioning the types of institutions (legal-economic, social, and political) and institutional change, and to study endogenous and exogenous dynamics of institutional change, and capture its development over time and path dependence, to trace and understand the different evolutionary paths of societies. The objective of this edited volume is to explore concepts, theories, and mechanisms of institutional change. Further, the role of energy, and particularly oil, in some emerging market economies, is also studied. Moreover, institutions and institutional changes, institutional change theories, the causes of institutional change, institutional change behavioral frameworks, institutional quality and its measurement indicators, and mechanism of institutional change are defined and identified. The importance of oil revenues in the process of institutional change, institutional barriers to transition from a natural state, and energy security and institutional quality are also recognized and described as important factors that influence sustainable development.

It is hoped that this book, corresponding with the era of emerging markets development, is appealing to a wide range of global audience and can serve as a useful reference work in education and research. It is also hoped that the book can provide innovative and productive discussions and satisfy the scholarly and intellectual interests, regarding institutional change, and a broad range of its interrelationships and interactions with functioning and development of markets and economies. A number of academics, researchers, and scholars, engaged in education and research in the area of institutions and institutional change, have contributed chapters addressing and discussing the most recent issues in this field. The book contains 14 chapters, including this introductory chapter, and is divided into three parts.

Part I consists of five chapters devoted to concepts, theories, and dynamism of institutional change. It begins by presenting a quantitative framework and computational methods for assessing institutional development. In undertaking this work, some data on institutions, which correspond to the European Union and the Group of Twenty (G20) economies, are analyzed by numerical taxonomy. Thereupon, this study focuses on major advanced and emerging economies, which have joined forces to achieve their goals through targeted planning; aligning their laws, regulations, and rules of games; and conducting harmonious dynamics of institutional change. In particular, the institutional indicators, including institutions, political environment, regulatory environment, and business environment, are used, and the analysis employs six sets of preliminary data, that is, these four indicators plus population and GDP per capita. Then the analysis is performed in three groups of economies, namely, the G20 economies, the European Union economies including the United Kingdom, and the European Union economies excluding the United Kingdom. In other words, before the occurrence of Brexit, it is attempted to explore some hypothetical impacts of Brexit on the dynamics of institutional change within the European Union. Moreover, a method of ranking economies with respect to institutional development is provided and a numerical technique is devised for reference and benchmarking purposes in evaluation and ranking of institutional attributes.

Another chapter examines institutional change contexts and dynamics using different theories and perspectives. Institutions are prevalent in every society, designed to protect the common interest of all stakeholders, serve as restraints on government and economic agents, and provide a framework to model behaviors and decisions. Nevertheless, institutional changes have diverse effects on the formal and informal sectors of the economy. The framework and institutional mechanism are shaped by diverse factors such as culture, context, public policies, and human behavior. Evidence from the literature review confirms that institutions experience gradual or disruptive changes depending on the competing interests of stakeholders in all contexts. Besides, understanding this construct is complex depending on the perspectives. The findings from this study reiterate the importance of using different perspectives to understand the interplay of endogenous and exogenous factors and human behavior motivations in institutional change studies.

However, the failure of some countries to achieve sustainable growth is rooted in the history and poor performance of their social, economic, and political institutions. According to North (1990), institutional change has defined the course of human societies' evolution throughout history and is the key to understanding historical changes. Therefore, the process of development has been closely tied with the process of institutional change and the willingness to break connection with the paths already trodden. What is an institution? What are the different types of institutions? What does institutional change mean? In addition, what are the theories of institutional change? A chapter is devoted to address such important questions.

Nonetheless, human interactions are the key to development and are ubiquitous, and due to this feature, they need structuring and give rise to the foundation of institutions. Institutions foster consistency and institutions, i.e., rules of the game, and shape human interactions. Institutions shape individual and collective actions in economic, social, and political dimensions. It is noteworthy that apart from political and sociological approach, institution and institutional change theories have gained much popularity in economics and empirical research. Thus, a chapter gives a theoretical perspective and review framework for comprehending the foundation of institution and causes of institutional change and analysis of significant theories of institutional change in the context of economics. The chapter is a doctrinal study and primarily proposes the basic idea behind the formation of institution, which will lead the readers of varying disciplines to fathom the realm of institution. Then, the chapter conveys the causes of institutional change like functionality, technological efficiency, diffusion, conflict, and power struggle and finally focuses on the design-based, evolutionary, and equilibrium theories.

Moreover, to empirically assess the role of institutions and institutional quality in economic performance, it is necessary to select the proxy variable(s) for institutional quality. Although several indicators have been suggested in the literature, individuals and international organizations are still attempting to introduce indicators that reflect the actual institutional quality of various countries. As institutions have different dimensions, several indicators have been suggested in the literature to measure the quality of institutions. However, there is no consensus among experts on which index should be used. Each scholar has used a different proxy variable, depending on data access limitations, to measure institutional quality. However, the key question is whether any indicator can be used as a proxy variable to determine institutional quality. The main purpose of this chapter is to answer this important question. To this end, most of the existing indicators are described descriptively and some important points regarding the use of each indicator are made. In addition, some indicators, including the rule of law and property rights as two measures of the quality of legal-economic institutions, are described in more detail. Nonetheless, the literature review shows that not all indicators have a common characteristic. In fact, different indicators are proposed for each specific institution, providing indications of caution when interpreting the results of empirical studies.

Part II contains five chapters focusing on mechanisms of institutional change. The difference in the economic, social, and political functioning of institutions is believed to be one of the main reasons accounting for the differences in the level of economic development between countries. Different institutions can provide the necessary conditions for the orientation and allocation of existing community resources to promoting innovative and productive activities. The attraction of human and social capital, on the one hand, and foreign and domestic physical capital, on the other hand, can bring prosperity to countries. The first chapter, in this part, provides an overview of institutional changes in some emerging market economies, the factors contributing to the successful interaction with and exploitation of various institutions in some countries to achieve sustainable growth and development, and the causes of failure in some countries to achieve this goal. The overall conclusion of this chapter is that East Asian and Southeast Asian countries have been able to experience significant economic progress by implementing economic, cultural, and political institutional changes. Other emerging market economies, however, have failed to implement the same changes because of the diminished institutional quality in these countries and the unwillingness of their governments to introduce radical changes.

Recently, it is argued that social media can not only be considered an institution but also a harbinger of institutional change as it has brought a sustained change in the behavior of the members of a society. It is a vital tool for social interactions over the past two decades. The dominance of the social media as an institution can be felt as it has sufficed to metamorphose the process of consumer buying behavior. The second chapter of this part gives the institutions and institutional change a new dimension in the emerging markets with the integrated marketing communication perspective. The aim of this chapter is to bring forth the impact of social media in building a "brand." If taken in the perspective of institution and institutional change, social media has drastically affected the way consumers explore, research, and share information about the brands. This chapter is a theoretical perspective along with review of literature about impact of social media on branding giving. The chapter focuses on the various aspects like types of social media tools used by the marketers, most dominant brands, and their social media branding strategies and also paves the way for future research in the related fields of study.

Additionally, institutional change is influenced by the economic, social, political, and overall processes of globalization, leading to the deterioration or improvement of the institutions (Samadi 2019). Hence, a chapter is devoted to investigating the impact of economic globalization on governance quality. This is an issue that has been one of the open theoretical and empirical questions in the literature of institutional economics and has always attracted a lot of attention from the scholars. Some scholars have consistently examined the impact of globalization on the quality of governance. However, the question is – how a country's economic and institutional structures can affect the impacts of globalization on the quality of governance? The chapter is an attempt to answer this question using data from 182 countries during 2002–2016. The technique of principal component analysis is employed for combining six sub-indices (dimensions) of governance to compose the overall governance index. Then, the countries are divided into four categories based on the global average of the overall governance and per capita income. The system-generalized method of moments (SYS-GMM) estimation procedure is also used to estimate the model. The results show that the overall globalization and trade openness have a positive effect on the quality of overall governance in countries with higher levels of income and governance than the global average, and a negative effect in countries with lower quality of overall governance and per capita income than the global average. The study indicates that the level of quality of governance of a country is a determining factor in how much a country benefits from globalization.

The next chapter, in this part, presents an original framework for the public administration reform and introduces the main characteristics of the public administration model to increase the efficiency of the emerging markets. This is an important issue due to the difficulty of the governments in dealing with the ambiguous mechanisms behind institutional change and public administration reform. The approach is based on institutional theories and institution-based views, which are considered as the adequate theories of administrative systems and markets by emphasizing the role of emerging markets through the development path. Many emerging market economies are compared based on various longitudinal and cross-sectional variables. This chapter has two main contributions: the first one is the relationship between public administration variables and the economic performance of nations. Results suggest that administration characteristics have a positive impact on country competitiveness and its business situation but no direct impact on the country's economic growth. Economic growth is the result of the administrative system function. It is the result of the country's improved competitiveness and the country's market governance model under globalization pressures. The second contribution corresponds to a variety of strategies under the comprehensive public administration reform model for solving the problem of government effectiveness and the country's growth. This chapter shows that public administration is a significant driver of socioeconomic and political development, and thus, it increasingly helps rebuild and rearrange the public administration continuously, to develop the country's capacity, recognize the new national and international opportunities, enter the markets, and encourage all governance actors to offer products and services efficiently and equitably. The chapter proposes new insights into public administration reform mechanisms by considering their relationship to the success of the emerging markets.

The last chapter of this part concerns an important emerging issue. In the next few decades, the future of higher education may change drastically as its systems are becoming incompatible with the increasing pace of technological advancement brought by the Industrial Revolution 4.0. Recent years have witnessed a rapid pace of new technological transition which played a crucial role in the previous industrial revolutions. This rapid technological transition affects almost every field of the emerging markets in economy, environment, culture, and education. The Fourth Industrial Revolution (4IR) considered as the global technological transformation and revolution is based on diverse modern technologies. In the context of the Fourth Industrial Revolution, education must be prepared to change with this technological transition. The main objective of the study, reported in this chapter, is to explore the emergence of Higher Education 4.0 (HE 4.0) and review new trends, techniques, and teaching methods practiced in few Asian emerging markets in adopting HE 4.0. The study also provides a summary of the industrial revolution and educational evolution from 1.0 to 4.0 and addresses the significance of this transition. The findings of this study reveal that higher education needs to invest in this transition, emphasizing the applicable changes to the education system.

Part III includes three chapters studying the issues related to the role of energy in institutional building and its potential synergies with institutional development. Institutions are organic entities with metamorphosis and evolutionary growth. The first chapter of this part of the book considers the significance of Iranian oil in modern Iranian institutional change process from its early days in the 1900s to the 1970s, while the state had the most petro-rentier budget. Thus, the ever-increasing evolutionary power of oil in forming modern Iranian institutions and its 79-year-old dynamism – embedded and analyzed critically in the Iranian and global historical contexts from the Constitutional Revolution to the 1979/Islamic Revolution – is discussed to shed light on its stupendous catalyzing and transforming features that led to Iran's urbanization, semi-industrialization, new sociopolitical class generation, state-nation conflicts, and revolution.

Moreover, the development theorists and thinkers have proposed various ideas about the lack of convergence of the development path in different societies. In this regard, as one of the new institutionalists, North discussed the transition from limited access order (natural state) to open access order with an emphasis on the issue of violence. This chapter of the book – inspired by the idea of violence and social orders, relates economic performance to the evolution of social orders and examines institutional barriers to transition from the natural state of Iran during 1941–1979. The results of this study indicate that during this era, synergies between extractive political and economic institutions created a vicious cycle. Competition and struggles in this era for gaining benefits were merely in the hands of a certain group; thus, the political demands and aspirations were highly suppressed to protect their interests. Disturbances in this cycle were in order to achieve economic rents under the control of other groups. Under such circumstances, the long-term balance between political and economic institutions was not made possible which led Iran to experience an era of basic limited access order and then to move toward a fragile limited access order and eventually the chaos instead of moving toward an open access order.

Furthermore, in light of an increasingly complex and uncertain environment, energy security and institutional quality are recognized as important factors that influence sustainable development. Emerging economies that seek to address the problems of high energy need/consumption for development and with relatively poor institutional quality have become a topic of interest in current research. This last chapter of the book is the first work to contribute to institutional quality literature by examining the impact of energy security, measured along eight different dimensions, on institutional quality in 43 emerging economies for the period 2002–2017. Panel data analysis is conducted using the panel-corrected standard error (PCSE) and feasible generalized least square (FGLS) techniques to deal with autocorrelation and heteroskedasticity and to check for robustness. The autoregressive distributed lag (ARDL) model and pooled mean group estimator were also employed to check the long-run effects. The results show that (*i*) six of the eight energy security indicators (i.e., energy gap, energy supply capability, energy structure, energy inefficiency, and energy developability in terms of consumption and CO_2 emissions) negatively affect institutional quality, whereas energy developability in terms of the CO_2 emissions per unit of energy consumption and energy acceptability (renewable energy consumption) has significant positive impacts; (*ii*) most of these energy security indicators have insignificantly positive effects on institutional quality in the short run, while seven of the eight energy security indicators have significantly negative effects on institutional quality in the long run. The effects of the energy security indicators on institutional quality were found to be consistent with the six institutional dimensions. Interestingly, these findings imply that emerging economies should increasingly use renewable energy to enhance institutional quality for long-run benefits.

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