

Wasta- Triadic Governance and Trust in Jordanian Business

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Abstract

Purpose

This research analyses the trust building and collective-action functions of Wasta in Jordanian business.

Design/methodology/approach

This research analyses the collective-action function of Wasta in Jordanian business. By demonstrating the role of informal institutions and personal trust in economic cooperation, Wasta will be approached as a mechanism contributing to personal trust and reducing transaction costs. Wasta as a concept is introduced, and the historical development, its various functions and ethical ambiguity are discussed. Based on the review of Wasta-literature, a three-dimensional model of Wasta is presented. By connecting Wasta to the insights of new institutional economics and transaction cost economics a new perspective on Wasta as a potentially beneficial institution is provided.

The trust-building function of Wasta is explored in detail by empirical analysis. The empirical section of this research is based on 28 interviews mostly conducted in Jordan. The sample consisted of two groups of respondents one with 17 and the other with 11 interviewees. It analyses the role of personal trust in Jordanian business relations and identifies patterns of trust-building based on Wasta in business situations in which personal trust is required. Considering the important role of triadic governance as emerging in the interviews and the ethically ambiguous perception of Wasta in the current literature, a model based on game theory is developed to distinguish between harmful and beneficial categories of Wasta.

Findings

The interviews revealed that personal trust between business partners is considered vital for the success of a business-relationship, anticipating a perceived ineffectiveness of formal institutions. The cornerstone of personal trust-building is structural embeddedness set up through middlepersons and the availability of traditional mediation mechanisms.

Two phases of a trust creation process have been identified. In the first stage individual trustworthiness is explored through third parties prior to entering into cooperation and joint ventures. Trust emergence in the second stage is based on the availability of an intervening middleperson (Waseet), providing normative pressure and mediation in case of a dispute. Both stages are connected as middlepersons establishing new business relations face some moral obligation in the event of opportunistic behaviour or defection of the trustee, to whom references have been given. Intercession and mediation as dimensions of Wasta are interrelated and embedded in a cultural narrative of indigenous Arab traditions serving as antecedents of trust. Besides the structural function of network closure and an intervening third party, the processes of mediation and intercession as a culturally embedded habitus serve as social capital in situations in which personal trust is required.

Based on the interviews a conceptualisation of Wasta and a typology of trust in Jordanian business relations are provided. Considering the ethically ambiguous connotations of Wasta in public and scientific discourse, it will be argued that it is not Wasta as such that leads to harmful results but structural conditions depriving actors of the options of voice and exit. These findings provide new knowledge and put this analysis at the forefront of academic research in this field.

Keywords: *informal institutions, management in Jordan, mediation, social capital, trust, Wasta*

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Chapter 1 Introduction

1.1 Background Research

The research disciplines which provide the theoretical base for this study, institutional economics, transaction cost economics and management science, in the past have delivered insights which remained largely isolated from each other. The new paradigms of institutional economics based on new insights from experimental research, approaches anticipating premises of sociology and neglecting some neoclassical assumptions, have not been introduced into a comprehensive model. The paradigm of superior economic efficiency of formal institutions has been cast into doubt by social psychological research. Experiments indicate that contrary to the neoclassical paradigm the degree of personalism has severe effects on contribution rates to public good in dilemma situations. The ability of informal institutions to solve collective action problems has been largely ignored by most areas of business research.

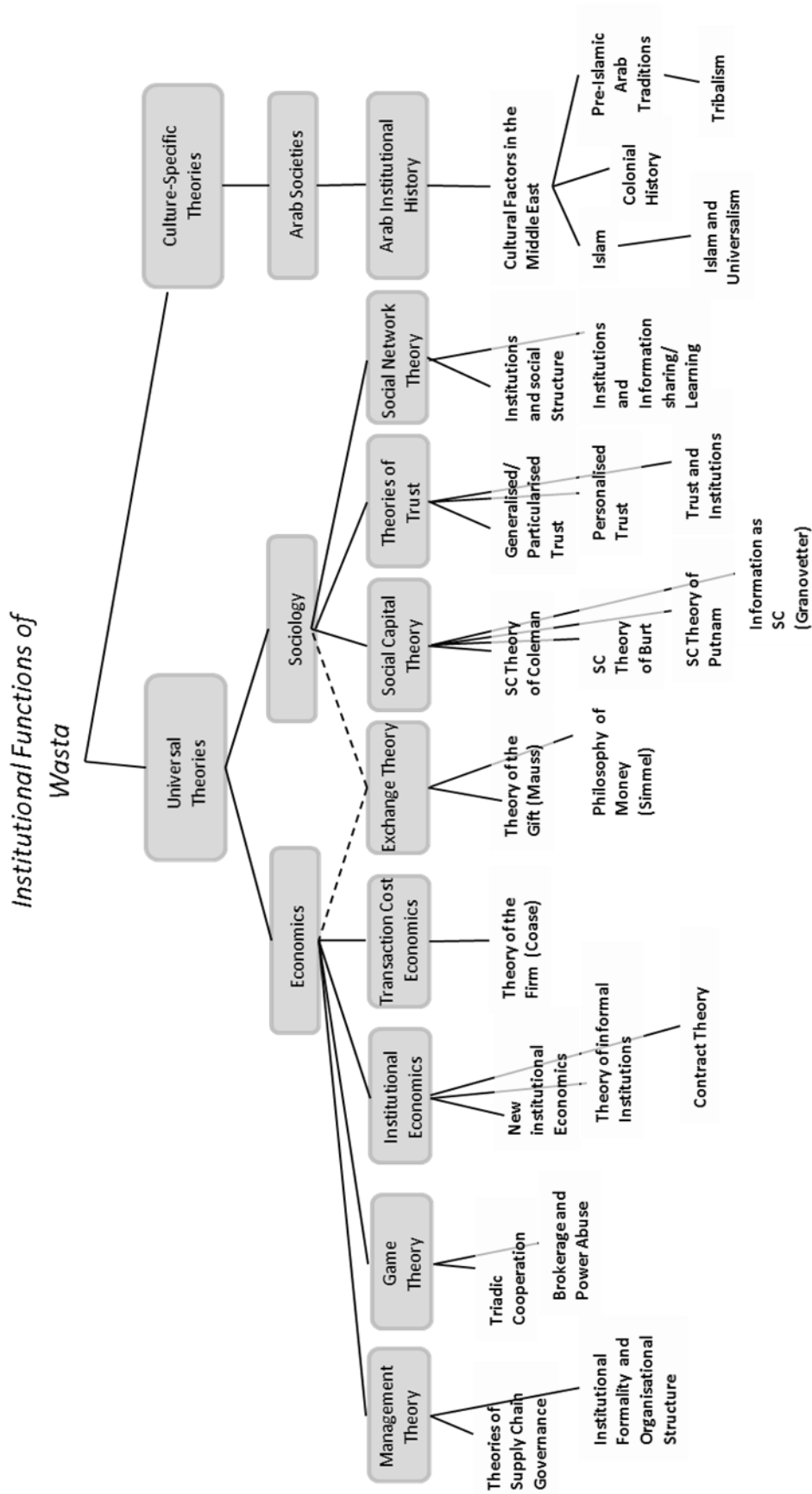
Organisational theory assumes that depending on their degree of personalism institutions are able to process different types of information. Informal institutions requiring elaborate communication have a relatively better capability of transmitting concrete and uncodifiable information while formal institutions have a comparative advantage in the transmission of codified and abstract information. The institution-specific capability to deal with various degrees of informational complexity impacts organisational structure.

Interest in non-Western management-systems emerged after the rise of Japanese industry in the 1960s and other Asian economies during the following decades. (Chen, 2000) Particularly Chinese management issues have recently been at the centre of attention due to the enormously growing importance of the Chinese economy during the 1990s. Research on management-systems in the Arab world in contrast is almost non-existent. Despite the

growing economic importance of the Middle East, no theoretical base for strategy-development exists. Particularly in the case of Wasta very little research has been carried out to assess the collective action dimension of this institution. New management paradigms based on conceptions of organisations beyond static bureaucracies with clearly defined borders are considering new approaches of flexibly connected corporate units requiring new innovative institutional links. Particularly companies from emerging markets have successfully chosen innovative development paths based on institutional arrangements that can be located between the polar positions of market and hierarchy on the integration scale.

The relevance tree below illustrates the theoretical fields and paradigms on which the theoretical framework of this study is built.

Figure 1.1: Relevance Tree of Theories Covered



1.2 Research Purpose

The purpose of this research is to provide an understanding of the role of the traditional networking and mediation mechanism *Wasta* as a trust-building governance function in business relations in the Hashemite Kingdom of Jordan. By analysing literature dealing with informal institutions and their role as coordination mechanisms in collective action situations, the importance of understanding context and the culture-specific mechanisms which enable cooperation will be outlined. The analysis of institutional research in the fields of economics, cultural psychology and organisational behaviour will provide the context for this research. It is a central aspect of this investigation to approach *Wasta* from a perspective of social cooperation and collective action and to demonstrate the vital function of informal institutions. By connecting *Wasta* to insights from institutional research on trust, cooperation and organisational behaviour, this phenomenon will be put into a context which previous research has not delivered.

The empirical research carried out in Jordan will provide an understanding of the role of personal trust in Jordanian business relations and of the processes required to establish personal trust through networking and mediation between business partners. The insights derived from interviews with businesspersons in Jordan will demonstrate the vital role of *Wasta* in order to achieve cooperation between previously unfamiliar actors in cases where personal trust is a condition.

Considering the ethically ambiguous perception of *Wasta* in previous publications and the lack of precise definitions of the researched phenomenon, a game-theoretic approach will provide a clear typology of *Wasta* based trust-building in Jordan. This model defines clearly the conditions and categories of *Wasta*-relations which are either potentially beneficial or

harmful. A clear definition of Wasta structures and a precise typology of triadic trust in Jordan is required to handle Wasta practices in organisations.

1.3 Research Questions

Precise research questions are required for a focused research approach and the conception of suitable research designs (Saunders, Lewis and Thornhill, 2003). Those used here are:

- Why do indigenous governance mechanisms based on informal institutions matter?
- What is the role of personal trust in business relations in Jordan?
- How is personal trust constructed in business relations in Jordan?
- What is the trust-building function of Wasta?
- What distinguishes beneficial trust-building Wasta from harmful practices of nepotism?

The research questions formulated in this section outline the gaps in the relevant literature, identified in the literature review. Approaching the research questions aims to contribute to the development of theories in this field and provide insights for practitioners operating in respective settings.

1.4 Research Aim and Objectives

This section defines the aim, objectives and structure of this research.

1.4.1 Aim

The aim of this research is to demonstrate the role of informal institutions in collective action situations and to provide an understanding of the function and importance of informal institutions. The review of literature dealing with Institutions aims to put Wasta into an institutional context and to provide a theoretical framework for an analysis of Wasta from the

collective action and trust perspective. By gathering qualitative primary data, this research aims to identify the role of personal trust in Jordanian business relations as well as patterns of trust-building in them. By applying game-theoretic models this research aims to provide a typology of Wasta-based trust building and a distinction from harmful practices of nepotism also associated with the term Wasta.

1.4.2 Objectives

Objective 1: Undertaking a literature review to identify the role of informal institutions in collective action situations. Outlining the vital role of informal institutions by applying the perspectives of institutional economics, transaction cost economics, sociology, cultural psychology and management research.

Objective 2: Providing a theoretical framework for the analysis of Wasta by linking existing knowledge about Wasta to insights from institutional research.

Objective 3: Creating a model identifying dimensions of Wasta based on existing literature.

Objective 4: Analysing the role of personal trust in business relations in Jordan.

Objective 5: Identifying patterns of trust-building in business relations in Jordan.

Objective 6: Identifying the role of Wasta in the process of trust-building.

Objective 7: Analysing the process of trust-building by applying a game-theoretic approach in order to distinguish between harmful and beneficial types of Wasta.

1.5 Research Structure

The structure of this thesis is based on nine chapters.

Chapter One- defines the purpose, aim and objectives of this research as well as research questions.

Chapter Two- introduces the concept of Wasta, describes the historical background of this institution, discusses problematic issues and presents a three-dimensional model of Wasta.

Chapter Three- reviews the literature dealing with economic institutions and discusses the role of institutions in order to achieve collective action. Furthermore, it introduces the relevant concepts of institutional theory on which this research is built. It particularly focuses on the formality dimension of economic institutions. The concepts of trust and social capital are introduced and relevant research is critically reviewed.

Chapter Four- analyses the impact of institutional formality on the structure of organisations. It demonstrates how the type of institution on which cooperation is based determines the choice of organisational integration and governance in supply chains.

Chapter Five- analyses the history of the institutional structure of Jordan. It demonstrates how various influences from pre modern Arab traditions to colonial nation-building strategies have shaped the institutions in modern Jordan. It furthermore discusses the role of Islam in the legal tradition and in informal institutions of Jordan. The socioeconomic environment of Jordan is analysed and contrasted with neighbouring countries in the region. Research literature regarding Arab and Jordanian management and organisational characteristics is critically reviewed.

Chapter Six - summarises the insights gained through the literature review, on which the theoretical framework of this research is built.

Chapter Seven - presents and discusses the applied research methodology as well as concepts of reasoning and defines the philosophical positions of this study.

Chapter Eight- describes the process of data gathering of this research and describes the analysis of data and presents findings and concepts derived from the analysis of the data. The findings from the analysis of interviews are discussed and a concept differentiating between harmful rent-seeking dimensions and beneficial trust-building practices of Wasta is presented.

Chapter Nine- presents a conclusion of the research. It provides a summary of the results and outlines the new insights gained. Furthermore, managerial implications, limitations as well as directions for future research are discussed.

Chapter 2 Wasta

Wasta is a complex and multidimensional phenomenon. This chapter reviews and discusses the existing literature on Wasta, identifies categories of Wasta and defines the dimension of Wasta relevant for this research.

2.1 Introducing Wasta

The term Wasta describes a practice of networking and a type of social capital in Arab societies. Wasta in its many dimensions is a cornerstone of social interaction in Jordan and many other Middle Eastern societies. Wasta is derived from the Arab term “yatwassat” which means steering towards the middle. Traditionally Wasta refers to a process of mediation between two conflicting parties by a third person, a Waseet. Wasta as an idiosyncratic Arab informal institution is traditionally a backbone of social organisation in Arab societies (Cunningham and Sarayrah, 1993; Al-Rahami, 2008b; Hutchings and Weir, 2006; Al-Rahami, 2008b). As will be discussed in the following chapter Wasta is a complex and multidimensional phenomenon with ambiguous ethical connotations. Irrespective of normative aspects Wasta in many forms is an omnipresent phenomenon in modern Jordan and an aspect of daily life of many Jordanians either in interacting with government authorities, in business relations or in cases where disputes need to be settled. “In most interactive events outside the nuclear family Wasta is considered and invoked where possible.” (Cunningham and Sarayrah, 1993: 6) Generally Wasta can be understood as intervention on behalf of others or helping others to attain something they could not achieve alone. Be it in the case of dispute resolution or nepotism, Wasta involves one party which is structurally powerful or controls access to resources or both, who intervenes to bring two parties together, either for the benefit for both parties or by abusing asymmetric power to dominate the other party.

2.2 Mediation Wasta

Wasta is a complex and multidimensional phenomenon. While historically Wasta was the central mechanism for dispute-solving in pre-Islamic Arab Bedouin societies, the phenomenon associated with the term Wasta has evolved into different practices over time. Cunningham and Sarayrah (1993) distinguished between two types of Wasta and created the terms mediation Wasta and intercessory Wasta. While intercessory Wasta is a type of rent-seeking behaviour, mediation Wasta summarises the traditional functions of mediation and arbitration (Al-Rahami, 2008b).

Mediation Wasta, which has evolved out of Arab traditions, used to be the cornerstone of social organisation in traditional Bedouin cultures of the Arab peninsula. As described by Cunningham and Sarayrah, mediation Wasta is applied to settle disputes in a large number of possible scenarios. A central aspect outlined by them is the importance of mediation Wasta in cases where a dispute has emerged between two members of different tribes. Particularly in situations in which persons have been physically injured or even killed, mediation Wasta is in many cases essential to guarantee social stability and prevent the escalation of the conflict. A Waseet needs to find a solution which satisfies both parties and avoids the injured party seeking revenge in the future. If Wasta-logic is applied in a dispute in which a member of one family was injured or killed by a member of another family, a notable person is required to chair delegation or a *jaha* which jointly will aim to find a solution based on mediation (Al-Rahami, 2008a). Cunningham and Sarayrah mention the legal aspect of this kind of mediation Wasta. In order to prevent the emergence of a long lasting intertribal conflict, government authorities in some cases demand that both parties agree to a mediation Wasta based solution. “If the victim’s family refuses the *jaha*, members of that family may be jailed as a means of coercing them into cooperating and to reduce the likelihood of further bloodshed.”

(Cunningham and Sarayrah, 1993: 13) Only after a successful Wasta mediation does a formal trial begin. This procedure mainly applies in cases in which people are killed or injured such as car accidents or homicide. Cunningham and Sarayrah also point out the slightly decreasing significance of such procedures in Jordan. In a case in which a Wasta procedure is required, it is important to find a competent, experienced and generally respected person to act as a Waseet. Traditionally an elder of a tribe or a sheikh is asked to mediate and use connections as well as charismatic power to solve a conflict. “You reap what you plant” (Cunningham and Sarayrah, 1993: 8), an Arabic saying which summarises the logic of Wasta based arbitration procedures.

The narrative of Wasta mediation emphasises social unity, harmony and reciprocity. “Today I or one of my relatives is the victim; tomorrow or a year from now, we may become the defendant. If we do not show forgiveness, mercy, and tolerance to others in their difficult times, we will not be shown tolerance by others when we are in distress.” (Cunningham and Sarayrah, 1993: 8) An important aspect of this arbitration function is the perceived honour of serving as a Waseet. Mediating in a conflict is not connected to financial rewards, and even imposes costs on the mediator:

The traditional shaykh leading a delegation of notables did not receive material compensation for his efforts. On the contrary, he might incur expenses by providing a feast honouring a settlement. The mediator’s reward from the conflicting parties, their asking God to prolong the mediator’s life and to bestow children in abundance, spreading his name and reputation by word of mouth among tribes and encampments.(Cunningham and Sarayrah, 1993: 13)

As El-Said points out the highest reward a mediator can expect is an enhanced status within the community and looking for material reward is even considered shameful in traditional Wasta (El-Said, 2009).

Besides this almost formal arbitration function of mediation *Wasta*, it is also used on a more informal level to settle small disputes or disagreements between two parties. “Furthermore, *Wasta* may take the form of formal mediation and interference or it could be informal through sponsoring or recommending.” (Al-Rahami, 2008a: 202) *Wasta* must be understood as a traditional backbone of social organisation in Arab societies. With varying degrees of formality *Wasta* guarantees the enforcement of property rights of individual or common goods. “On the other hand, people resorted to *Wasta* as a mechanism to solve local and community disputes, to facilitate the management of common scarce resources...” (El-Said and Harrigan, 2009: 1328). In case of disagreement *Wasta* traditionally used to be the central mechanism to resolve an issue. The availability of the mediation function which facilitated the enforcement of agreements protected individuals as well as a collective against opportunism. “One needs *Wasta* in order not to be cheated in the market place...” (Al-Rahami, 2008a: 201) Mediation *Wasta* can be understood as a facilitator to enforce agreements and norms formally and informally through the power and intervention of a *Waset*.

2.3 Intercessory *Wasta*

The second dimension of *Wasta* identified by Cunningham and Sarayrah is a variety of nepotism and cronyism and is mostly considered a harmful practice. Intercessory *Wasta* is a process in which a broker uses structural power as a gatekeeper to provide access to resources unattainable to the other party. This phenomenon can be found at many levels of Jordanian society. Particularly interaction between individuals and public administration experiences a utilisation of intercessory *Wasta*. *Wasta* relations can be used to speed up administrative procedures like issuing a new passport or licence plates for a car, or to get a job to which the applicant would otherwise have no access. Intercessory *Wasta* is also used to enter university by bypassing formal regulations, or to get access to other government resources (Smith et al.,

2012). In all these scenarios one party has either well-established Wasta relations with a gatekeeper or outright bribery is used to gain support by the broker to attain what is desired. Intercessory Wasta is particularly important in the labour market. Considering the difficult economic situation in Jordan, well-paid jobs are scarce and connections to get a job are widely used (Cunningham and Sarayrah, 1993; Hutchings and Weir, 2006; Loewe, 2007).

Intercessory Wasta can be understood as a situation in which a broker establishes a connection, for instance between an applicant and an employer, and uses structural power to allow the applicant access to the job. In such a scenario, having “good Wasta” means having connections to an influential person who is willing to provide access to his or her network of personal relations and to act as a patron for the person seeking a favour.

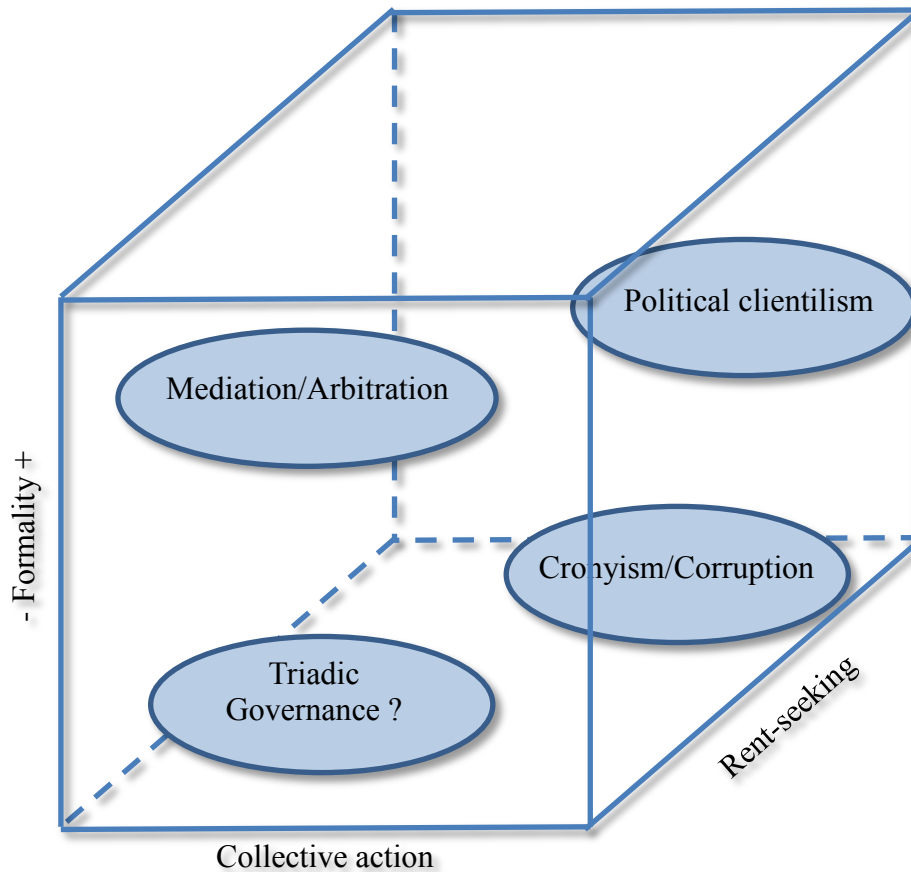
In intercessory Wasta a middleman is asked to establish a connection, to give testimony on the good reputation of the resource-seeker and aims to convince, for instance an employer, to provide the resource or a job. The complexity of Wasta implies that intercessory Wasta also contains more than one dimension (Cunningham, 1994). The example mentioned above describes one possible scenario of intercessory Wasta. In this case personal connections and networks facilitate access, in other cases the payment of bribes is made for instant services. The two categories differ concerning the social connections that need to be established. In the latter case a service is delivered for a payment, no personal connection is needed in advance nor do remain any social obligations remain open after the deal. The other category requires building a connection between the resource-seeker and the gatekeeper. Kinship-relations play a significant role in this constellation of favours and social obligations (Loewe, 2007). Considering the complexity of Wasta not every aspect can be discussed as part of this research. “Wasta has many different facets, but mainly describes personal informal networks based on friendship, kin or patron-client relations. Wasta relations, involving reciprocal and

co-operative obligations, have expanded to include other significant loyalties such as ethnic or religious groups, political parties or social clubs, as well as friends and acquaintances.” (Al-Rahami, 2008a:202)

2.4 Corruption or Facilitator of Collective Action? Dimensions of Wasta in modern Jordan

The previous discussion has demonstrated the categories of Wasta in Jordan. While Wasta has grown out of a mediation mechanism to settle disputes, the term today summarises a much more complex construct. Besides the two categories of intercession and mediation, the dimension of formality needs to be introduced. As briefly mentioned, mediation can be either an almost formal process, in some cases even required by law with procedures and fixed roles among participants, or an informal institution which solves small scale conflicts and stabilises relations between individuals. The model below, which is derived from scenarios of Wasta described in literature, illustrates the most fundamental dimensions which are of significance for this research.

Figure 2.1: Dimensions of Wasta



While academic literature deals with intercessory Wasta and with mediation Wasta which is relatively formalised, the informal dimension of mediation Wasta and its trust building function as an economic institution has been mostly neglected by research.

2.4.1 Wasta vs. Wasata

The term Wasta in Jordanian society is highly problematic and dominated by negative connotations of intercessory Wasta. The meaning of the term is polluted and stigmatised as an unfair and undesirable rent-seeking practice. Due to the unethical perceptions, individuals do

not want to be associated with any kind of Wasta. This research is dealing with a positive dimension of Wasta and approaching Wasta as an institution which potentially has beneficial effects; many interviewees emphasised that their practice is actually not called Wasta but Wasata. This information was given by some participants “off the record” after the formal interviews when discussing the research purpose. Consequently these very valuable opinions have not been recorded and could not be anticipated in the coding structure. Despite the importance of this aspect, the informality of this information and the unstructured collection of expressions do not allow it to be integrated formally into this research. It nevertheless seems essential to briefly mention this issue, since some ambiguity exists with the terminology. As some participants pointed out, Wasta exclusively describes the rent-seeking dimension of intercessory Wasta, while the phenomenon analysed in this research is called Wasata. Al-Rahami mentions this aspect: “The reality of the situation seems to boil down to Wasta becoming a taboo word that means corruption and cronyism. The truth is that the original functions of Wasta are noble and should be encouraged in any dispute resolution process.” (Al-Rahami, 2008a: 208) Since the author of this dissertation has no access to sources published in Arabic, the base for defining terms is the limited publications available in English, which do not provide a coherent answer regarding this problem. The utilisation of terms in two publications demonstrates the contradictions in this case. The most important publication in this field, the work of Cunningham and Sarayrah, suggests that the terms have synonymous meanings: “Wasata, or Wasta, means the middle, and is associated with the verb yatawassat, to steer conflicting parties toward the middle point or compromise.” (Cunningham and Sarayrah, 1993: 1) They distinguish between Wasta and Wasata not according to function but referring to grammatical issues: “In classical Arabic, wasata refers to the act; while Wasta or Wasit is the person who performs the act.” (Cunningham and Sarayrah, 1993: 1) Al-Rahami has published an analysis of arbitration as a legal mechanism in Jordan; in this context the

term Wasta is consistently and unambiguously applied to describe a mediation function. (Al-Rahami, 2008a) A source published by Transparency International on corruption in Lebanon uses the term Wasata as a synonym for corruption, cronyism and nepotism (Gebara, 2005). The utilisation of the term Wasata in this context contradicts the perception of beneficial (mediation) Wasata versus harmful (intercession) Wasta. No sources could be found which confirm this construct. The absence of a formal definition of terms must not be interpreted to mean that the understanding of some interviewees is wrong. It indicates that profound research dealing with the precise meaning of words is required. The work of Cunningham and Sarayrah was published two decades ago, and languages evolve. It is possible that the academic language used in this research is to a certain degree outdated and does not fully reflect social reality in Jordan today. Nevertheless a strong and consistent social phenomenon has been identified with a function irrespective of the wording. Due to the lack of suitable explanations the terminology applied by Cunningham and Sarayrah is the backbone of this research. It must be restated at this point that interviewees criticised the use of the word, although no coherent picture emerged from these statements.

2.5 Conclusion

Wasta is a phenomenon which is both multidimensional and omnipresent in modern Jordan. This chapter has presented a three-dimensional model showing the various categories of Wasta. Although the perception of Wasta is dominated by association with cronyism and nepotism, Wasta also describes a traditional and important mediation mechanism which fulfils a governance function. Despite the beneficial aspect of mediation Wasta almost no research is available on the trust building dimension of Wasta in business relations.

Chapter 3 Social Organisation

This chapter will provide an introduction to relevant aspects of institutional theory, fundamental for understanding the research question as well as the research approach. By explaining the relevant terminology and theoretical concepts of institutional theory, the required context for the analysis of the researched phenomenon is created. In this chapter the role of cooperation and collective action in economic systems and the mechanisms facilitating cooperation will be reviewed critically and discussed. Varieties of informal institutions and their idiosyncratic dynamics are analysed. The concepts of trust and social capital as well as their relation to institutions are introduced and discussed in detail.

3.1 Cooperation and Collective Action

Cooperation is a crucial requirement for economic development; it enables economic organisation beyond the scale of a mere subsistence economy. Modern society, which is based on division of labour and specialisation, can only exist through cooperation by trading, exchanging and joint risk sharing among individuals. Cooperation connects the abilities and potentials of a social group and allows for large scale production welfare gains through economies of scale. Emil Durkheim noted, that a society can only exist if the base for social cooperation is provided, which unites the knowledge and the forces of the infinite number of unorganised individuals. Alexis de Tocqueville called the art of cooperation the mother of all actions (Fukuyama, 1996).

The premise of individual behaviour in neoclassical economic models predicts non-cooperative behaviour and defection in dilemma situations. The selfish homo economicus would not cooperate and contribute to the public good but only follow the opportunistic strategy of defection and maximisation of the individual good. The payout ratio of a

prisoner's dilemma, shown in figure 3.13, demonstrates the problem of public good contribution and defection as the dominant strategy in cooperation. The tragedy of the commons discussed by Axelrod describes how communities fail to provide common pool resources if individuals are reluctant to cooperate and free-ride on the expense of the group (Axelrod, 1981). The consequence is a collapse of the public pool resources where all individuals are worse off than in a situation of mutual cooperation.

3.2 Transaction Cost Economics

Transaction cost economics deals with the expenses that are associated with social cooperation. These costs arise through the necessary monitoring of agents, enforcing property rights, defining and measuring quality. Actors have to deal with high transaction costs if property rights are not well established or leave room for interpretation and opportunism. A weak and unreliable or unpredictable third party concerned with property right enforcement as well as high asset specificity contributes to the high costs of transactions. By integrating costs of cooperation into a framework of analysis, Ronald Coase (1937) delivered a fundamental explanation for the existence of firms within a market and demonstrated that only in the absence of transaction costs does the neoclassical paradigm deliver the implied allocative results. In situations of information asymmetry (Akerlof, 1970) risk is disproportionate for one party since the asymmetric information scenario can be exploited by one actor. The costs of achieving the required information and the monitoring of the asymmetrically informed actor create the rationale for the formation of long-term commitment relations instead of spot-market transactions. Since long term relations and the limitation of the number of transaction partners impose opportunity costs on actors and deliver suboptimal returns in what is called hold-up situations, they are perceived as inferior modes of coordination by neoclassical economics which is blind to transaction costs. The emergence of long-term commitments

among actors in a market is perceived as a rational choice by anticipating transaction costs. If transaction costs outweigh opportunity costs in a system, commitment structures of various types become an efficient mode of coordination.

3.3 Institutions and Social Interaction

“Institutions matter” is the paradigm of economics concerned with social cooperation and collective action (North, 2007). Despite Adam Smith’s glorification of atomistic competition, in which individuals create value by selfishly seeking their advantage, societies and economies do not function without mechanisms that impose constraints upon individuals and opportunistic behaviour. The function of such institutions is to generate public good contribution among individual actors in economic interaction. The Hobbesian “leviathan” created through the social contract is one early theory of a modern institution that organises the interaction of individuals. The leviathan is created through a strong central authority that prevents a war of all against all in what Hobbes called the “state of nature”. In Hobbes’ theory a third party is required to monitor cooperation, enforce rules and sanction free-riding (Hobbes and Tuck, 2010). In modern society the leviathan is the state, represented by the rule of law, which builds a reliable base for cooperation between individuals and organisations and enables public good contribution. Institutions are considered the rules of the game (North, 2007). Despite the potential wealth creating function of institutions, cooperation is not desired in all domains of the economy, as with case of anti-trust laws. Defection instead of cooperation between companies, leading to competition in order to avoid monopolistic rents for corporations, is a cornerstone of wealth creation in a market economy (Friedman and Friedman, 2002).

Institutions as exchange mechanisms are not unambiguously positive from the perspective of public wealth, since they can be designed for the purpose of exclusively maximising private

gain, which is the case with some traditional informal institutions that lead to cronyism or rent-seeking. The design of institutions determines how individuals act according to their bounded rationality and thereby how a society is organised. The rational choice of each actor defined by the logic of the institutional design creates a path-dependency leading to idiosyncratic forms of economic organisation, or as it is referred to “varieties of capitalism” (Hall and Soskice, 2004).

3.4 Formality of Institutions

Economic institutions vary across societies. Since the type of institutions vary within countries and several societies that are linked by institutions can exist within one country or overlap a country’s border, the term society is explicitly chosen at this point instead of referring to the national level. Particularly between societies in which the rule of law is well established and property rights are enforceable and those in which the legal background is less developed, individuals must rely on alternative or what is called self-enforcing means of interaction. The rule of law and third party enforcement are formal institutions in contrast to informal self-enforcing institutions based on personal monitoring (Henisz and Williamson, 1999; De Soto, 2000; Prahalad, 2005; North, 2007).

3.4.1 Informal Institutions

Unwritten rules like non-codified norms, values and customs that impose constraints upon individual behaviour in social interaction are considered an informal institution. Unlike formal institutions they are not codified, neither is deviance punishable by a bureaucratic third party, be it the state or a company. Despite the conception in modern Western countries of social life being organised by formal, abstract and impersonal institutions such as property rights and laws these types of normative instances only regulate interaction to a certain degree. As North noted “In our daily interaction with others, whether within the family, in

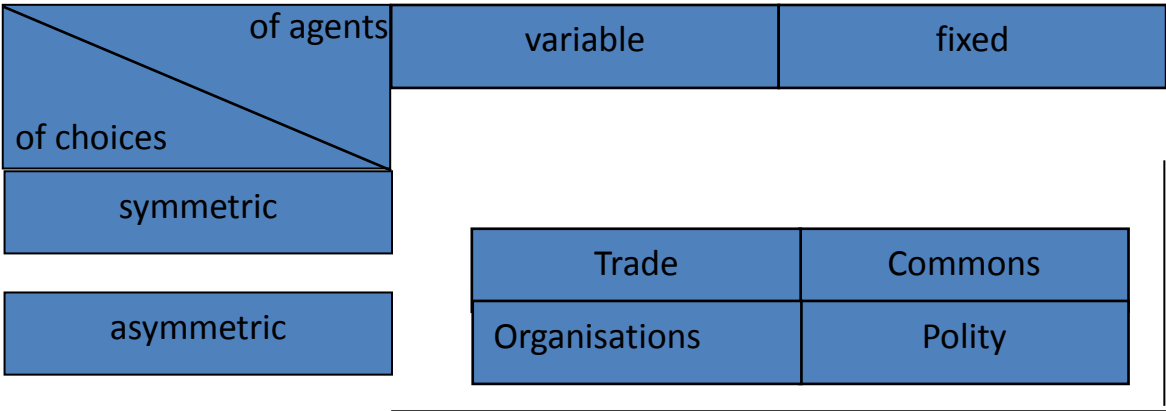
external social relations, or in business activities, the governing structure is overwhelmingly defined by codes of conduct, norms of behaviour and conventions” (2007: 36). Informal rules can be complemented by formal ones and their efficiency can be thereby increased, but formal institutions cannot exist without informal ones. The enforcement of legal rights is costly and enforcement and monitoring costs account for a significant share of developed countries GDP (North, 2007). Even if defection and deviation from what is agreed upon in a contract is punishable through a third party, transaction costs are prohibitively high in scenarios in which actors constantly cheat and refuse cooperation. In such a constellation, in which formal institutions are perfectly established and operational but informal constraints are completely lacking, no cooperation could emerge due to enormously high enforcement and transaction costs. The efficient functioning of markets requires a set of values.

The replacement of traditional norms and values though bureaucratic, universal and anonymous institutions benefits from a moral base of pre-modern times. Keynes’ expression “We destroyed Christianity and yet had its benefits” (Bell, 1977: 208) expresses how the transition phase from tradition to modernity, from “Gemeinschaft” to “Gesellschaft” or from informal to formal institutions benefitted from the best of both worlds (Tönnies, 2005). The issue about informal institutions is how social order and cooperation can be achieved in societies where no third party enforces the Hobbesian social contract to form the leviathan for the benefit of all (Hobbes and Tuck, 2010).

The backbone of most informal, in most cases traditional personalistic, governance systems is kinship and reciprocity. In societies in which traditional family structures and hierarchies are prevalent, interaction within the family domain is well regulated and no insecurity within this sphere arises. Cooperation beyond the familial environment is regulated by idiosyncratic and culture-specific codes of conduct of gift-giving, honour, collective responsibility and

emphasis on generosity. These dimensions create trust in a domain where law does not protect against opportunistic behaviour nor does kinship provide a secure cooperation base. These institutions are by no means simple and have in some cases proven to be stable social frameworks. The Potlatch practised by North American Klallam tribes, described by Mauss and Halls (1996) demonstrates the role of reciprocity as a mediating force in spheres that are not regulated by kinship norms. The process of the exchange of gifts created a stable and reliable domain of mutual trust and avoided violence in conflicts between tribes. These examples of informal institutions mainly refer to traditional societies and basically deal with the distribution of primary goods like common water resources, fishing resources etc. in the common domain. The common domain refers to a sphere of social exchange in which the set of choices is symmetric and the set of agents is fixed. In this constellation actors do not have the choice to not trade. Such a game-theoretic situation can typically be found in traditional village communities e.g. relating to common irrigation systems (Aoki 2001). The assumption of actors not having an exit option in a game does not hold in modern economic exchange. This study nevertheless focusses on informal institutions in the trade domain in modern economies. In contrast to the common domain, the trade domain is characterized by the voluntary contribution of participants who can choose cooperation with different actors if better options emerge. The types of domains of games in social exchange are illustrated below. Although as demonstrated by Ostrom (2000), informal institutions can be very successful in the common domain in modern societies at administering common pool resources, informal institutions have also developed into significant governance forms of some modern economies and serve as the dominant management paradigms in those countries (Williamson, 1993; Ostrom, 2000; Aoki, 2001). Wasta in the Arab world is a considerable social force in governance systems. An analysis of this dimension of Wasta is the purpose of this study.

Figure 3.1: Domains for Social Exchange



Source: Aoki (2001)

As mentioned above, formal and informal institutions can exist in parallel, they are not completely independent from each other and the move from informal to formal is gradual. Also the distinction between both types is not binary, it is rather considered as a continuum moving, as demonstrated in the table below, from a high to a low degree of formality (Etzold, Bohle and Keck, 2009). Institutions that show the highest degree of formality are laws and constitutions whereas personal agreements are the most informal types. Between the extreme points on the scale are categories with a varying degree of formality. The formality scale of institutions is illustrated below.

Table 3.1: Formality Scale of Institutions

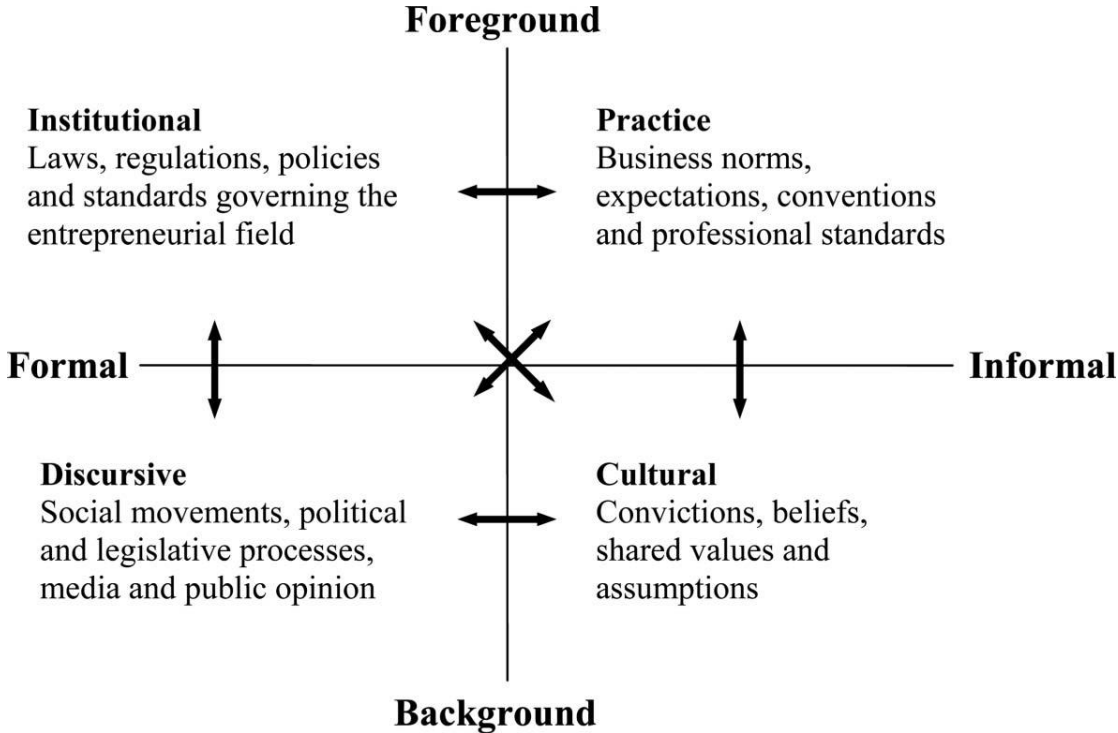
Degree of Formality	Institutions	Hegemonic Actors	Nature of Social Ties	Characteristics of Interaction
High: Predominantly formal interactions	Generally applicable and legally-binding laws, constitutions	State (+ supranational actors)	Law and authority	Written Communication, legally binding norms, rationality, impersonality, rigidity of rules, vertical relations
Medium-high: Mainly formal interactions	Specific articles in directives and contracts	State and corporate enterprise	Market and competition	Mainly written communication, codified norms, impersonality, vertical relations
Medium: Both formal and informal interactions	Modes of regulation of an arena	Leaders and middlemen	Negotiation and contestation	Verbal communication, socially defined codified norms, horizontal and vertical relations
Medium-low: Mainly informal interactions	Unexpressed social norms, taboos, values, customs	Community and peer-groups	Social control and identity	Practical knowledge, verbal communication, socially defined codified norms, horizontal relations
Low: Predominantly informal interactions	Personal agreements	Family and friends	Personal trust	Practical knowledge, face to face communication, codified norms, personalised trust, strong social ties, intuition

Source: Etzold et al. (2009)

3.4.2 Institutional Environment and Cultural Narrative

As discussed, antecedents of trust vary across cultures and are embedded in an indigenous local cultural narrative. Institutions, both formal and informal, and culture co evolve and influence each other. In order to understand how trust is created in a particular cultural setting and which antecedents the trust creation process is based on, the institutional environment in which the interaction is embedded needs to be understood. Particularly considering the culture-specific nature of social capital as described by Bourdieu (1986) the idiosyncrasies of social capital in a setting must be taken into account. Nayak and Maclean (2013) developed a model for the analysis of the institutional environment in which entrepreneurial actions are embedded. In this model the entrepreneurial field is defined as “a culturally bounded community of entrepreneurs and associated elite actors distinguished by the co-evolutions of institutions, practices, discourses and cultural norms.” (Nayak and Maclean, 2013: 29) The model brings together institutions, organisations and individuals and analyses which discourses have shaped the indigenous entrepreneurial field. Such an analysis of an institutional discourse in a cultural setting is vital for an understanding of the rules of the game in and between business organisations.

Figure 3.2: Institutional Context



Source: Nayak and Maclean (2013)

Although the analytical tool explicitly takes into consideration the informal dimension of an institutional setting, the limited focus on “elite actors” in the case of informality is counterintuitive. In chapter three the parallel existence of formal and informal economic structures was described as a characteristic of developing economies. A fundamental shortcoming of economic analysis and development strategies in such countries is ignoring the structure and dynamics of the informal sector (De Soto, 2000; Ostrom, 2000, Prahalad, 2010). The informal sector of an economy operating in parallel to a formal sector and often excluded from formal institutional processes through excessively high barriers to entry contributes a significant share to local wealth creation. Therefore analytical limitation to elite actors ignores a driving and vital force of entrepreneurial activities in emerging markets.

Prahalad (2010) has outlined the importance of “the bottom of the pyramid” for consumer markets in India and other developing countries. Since economic actors in the informal sphere face severe hurdles in entering formal structures (De Soto, 2000) social organisation exclusively relies on informal institutions. As informal institutions in some cases are superior to superimposed formal structure, crowding out trust, (Ostrom, 2000) the analysis of an institutional narrative must be extended to decision makers in both formal and informal business settings. As entrepreneurs operating in spheres like micro-businesses, micro-finance or bottom of the pyramid markets are unlikely to be categorised as elite actors, the analytical focus must also be extended.

Despite this limitation the model provided by Nayak and Maclean (2013) provides a tool which contributes to the advancement of a wider institutional analysis. The model illustrated in figure 3.2 extends the perspective beyond the formal-informal dichotomy and introduces the categories of background and foreground. While in both formal and informal spheres in what is called the foreground in this categorisation, explicit or visible phenomena are described. Observation of phenomena in the foreground of formality is based on the most objective criteria since formal institutions are by definition formalised and accessible and communicated to all actors. The foreground of informality is not based on explicitly and formalised rules but observable, since institutions require to be accepted by most actors in a setting. The nature of informal institutions has been discussed above in detail and requires no further discussion at this point. The background of the formality dimension describes the implicit aspects of institutional arrangements and is comparatively more difficult to observe. Both categories discursive and cultural categories summarise the narrative of the discourse in which the foreground dimensions of institutional and practice are embedded. While the formal foreground or the category institutional emerges from a discourse of social movements and

political discussions, the informal background or the cultural also has an impact on both formal foreground and background through shared values, beliefs and assumptions. The same applies to the informal foreground of practice. All four categories are interrelated and influence each other in a dialectic relationship and thus describe the process of institutional evolution in a society. As this research aims to contribute to an understanding of informal institutions in Jordan the model presented above will be applied after an introduction to the institutional history of Jordan in chapter five. The structure discussed will be applied to categorise aspects of Jordanian institutional history and cultural narratives.

3.5 Social Capital

Sociologists Coleman and Bordieu have coined the term social capital (Coleman, 1988; Field, 2009). Social capital refers to potential benefits that individuals or groups can achieve through certain social structures. Whereas institutions are the rules of the game and determine social interaction, social capital describes frameworks of cooperation built on informal institutions (Noteboom, 2006). Although the relationship between these two concepts is confusing, and contradictory views are found in the social capital literature, it is this conceptualisation of social capital on which the analytical framework of this dissertation is built. The striking difference between institutions and social capital is that institutions do not need to be established by the individual actor. The character of institutions is that their existence can be taken for granted a priori. Social capital in contrast needs to be constructed by processes that are defined by the type of institutions prevalent in a system. If informal institutions shaped by strong personalism such as reputation and sanctioning by the threat of losing face are the dominant coordination mechanisms, then reliable personal connections that enable cooperation are the type of social capital built on this particular set of normative institutions. This term, which adds to the existing theories of financial- and human capital, has

experienced an inflationary application in sociology, political science and economics. In contrast to economic or human capital, social capital is not fully the property of an actor but depends on the direct and indirect relations which an actor maintains within a network and is also marked by a very limited transferability. The resources generated through social capital are in themselves forms of capital such as economic capital, human capital, information, power or collective social values such as solidarity and trust (Lin, 1999).

In general six resources associated with social capital can be summarised:

1. family and group solidarity.
2. the ability of collectives to organise themselves.
3. trust in the reliability of social norms.
4. information.
5. power in the sense of structural autonomy.
6. power in the sense of social influence.

Social capital theory has developed a large number of concepts that refer to different aspects of social interaction. This research uses the theoretical framework of the following categories:

1. bridging-bonding
2. individual-collective
3. formal-informal

In *Bowling Alone* Putnam (2000) considers social capital a resource that emerges through civic activities in a civil society. He defines bridging social capital as “open networks that are outward looking and encompass people across diverse social cleavages”, while bonding social capital consists of “inward looking [networks that] tend to reinforce exclusive identities and

homogeneous groups.” (Putnam, 2000: 22) Bonding social capital refers to family and friends or structures of “superglued” networks, such as the Ku-Klux-Klan for example (Putnam, 2000). Whereas bonding capital consist of reliable ties of intimate relations with familiar persons, bridging capital is based on cross-cutting ties that reach beyond that sphere. Granovetter's (1973) concept of strong and weak ties corresponds to the bridging and bonding framework. Considering the tie strength measured by cognitive distance, frequency of interaction and duration, bonding social capital relies on strong ties while weak ties are the base of bridging capital.

Collective social capital such as solidarity among group members or trust in social institutions benefits the entire collective, facilitates cooperation and collective action and its consumption is non rivalry, it produces positive externalities. Its value increases as more actors participate and are subject to the same coordination mechanisms (Patulny and Svendsen, 2007).

Individual social capital in contrast benefits individual actors in some cases at the expense of others or the entire group. Structural positions of individuals who administer resources of third parties, such as in principal agent relations, allow free-riding by abusing structural power. Burt's theory of structural holes is an example of private social capital. Whereas from the collective perspective, dense networks foster the enforceability of norms and therefore promote collective action, a network rich in structural holes is more advantageous from an individual perspective (Patulny and Svendsen, 2007). An actor in a network who is connected to a large number of otherwise disconnected or just loosely connected individuals, marks a high degree of structural autonomy which gives the actor a brokerage position which it can exploit as the “third that rejoices”. This theory presumes that it is not in-group members who hold the greatest advantage, but those who span several networks, between which they can mediate. Actors in a network holding such individually beneficial positions are interested in

defending their unique gatekeeper function and aim to keep structural holes open to maintain their power. The character of private social capital is that it loses its competitive advantage; the more actors are holding a similar position (Burt, 2007).

The formal-informal distinction refers to the accessibility of the benefits of social capital and has caused confusion in the social capital discourse. Putnam's concept of bridging capital, which focuses on the engagement of citizens in the public, such as the church, clubs or other associations in which individuals get in touch with others who are not members of their families and form bridging relations is considered formal social capital. The title of Putnam's essay "Bowling alone" symbolises the decrease of communal activities in the USA (Putnam, 2000). Besides the common activities of individuals that requires physical presence; involvement in democratic processes such as elections or public debates creates an asset for the society. In his argumentation civic participation and a resulting feeling of civic duty enhance formal rule compliance. The essence of Putnam's concept of social capital can broadly be summarised as civic-mindedness of members of a society and social norms that enable collective action. According to Putnam such a social environment is a cultural phenomenon that accumulates over a long period of time (Putnam, 2000).

Formal social capital as defined by Putnam is considered non excludable since it is accessible to every individual in that society. Access to formal social capital does not have to be established by every individual actor. Studies analysing the impact of formal social capital have operationalised it by applying values like generalised trust, altruism and confidence in legal system. If a society scores high in these categories it has strong social capital from which each actor in the system benefits and to which access cannot be denied. This conceptualisation of social capital has been criticised for defining social capital too broadly and confusing social capital with institutions. While laws work as formal institutions as

defined by North (2007), social capital in contrast consists of social structures incorporating and applying these institutions. Expanding the conception of social capital to the formal dimension has been denounced as an “everything but the kitchen sink” approach (Cook 2005:8). Following the logic of Lin according to which social capital is captured from embedded resources in social networks social capital has by definition an informal dimension.

The social capital concept of Putnam refers to interaction of citizens in formal associations which helps a society to overcome particularistic structures and to become universal and inclusive. While Putnam assumes that interaction beyond familial boundaries creates civic mindedness and improves the coherence of a society, such structures can have the reverse effect. As members of a certain association might develop a trust base among insiders, the in-group can become particularistic by itself and develop and maintain an idiosyncratic habitus excluding outsiders. Referring to the social capital concept of Bourdieu (1986), gaining access to certain groups or classes in a society can be social capital in order to achieve individual goals. Groups, communities or associations, which according to Putnam provide social glue, supporting the cohesiveness of modern societies, can turn into exclusive pockets of particularism. Long term interaction within groups can lead to the emergence of a group-specific habitus, signalling the in-group status of members. Lacking social capital of group specific habitus can create a hurdle for achieving in-group status. Outsiders are denied the benefits of the support of cohesive groups, its information advantage and social status through membership.

Network closure is a central aspect in the social capital discourse. The closure argument refers to the concept of Coleman (1988) and the idea that dense and cohesive networks provide effective personal monitoring mechanisms that enable the enforcement of group norms based on informal institutions. In societies in which informal institutions like concepts of honour

and the fear of losing face are in operation, the social structure of a closed network is considered a form of social capital. Dense connections between actors quickly transmit information about defection and make opportunistic behaviour risky for defectors, since misbehaviour will be communicated among potential cooperation partners. It can be classified as a variation of the bridging-bonding social capital idea. The network clusters are based on strong personal ties which create bonding social capital; connections between these clusters corresponding to the bridging social capital category. The closure argument focuses on the structure of bonding social capital required to enforce norms in groups relying on informal institutions (Coleman, 1988). Social capital built on closed network structure and personal monitoring is a crucial condition for cooperation in societies lacking reliable formal institutions; it nevertheless inhibits cooperation beyond these network clusters and can be an obstacle for large-scale division of labour and specialisation (Noteboom, 2006).

Whereas closure refers to a tightly knit structure of groups, the spaces between these networks, in which relationships are not embedded, are called structural holes. Both types of relations, within dense networks creating bonding social capital and bridging relations spanning across structural holes, can prove beneficial in different ways. While network closure allows for norm enforcement and monitoring, bridging relations provide an information advantage. By combining the concepts of closure and structural holes, Burt developed a management theory of social capital and approached the issue from a team perspective (Burt 2007). In a study of team performance of managers in France and the United States, Burt tested the hypothesis that a combination of Granovetter's weak ties and Coleman's network closure would be the most successful social structure (Granovetter, 1973; Coleman, 1988). The two factors analysed were brokerage beyond group, represented by a large number of weak ties to otherwise disconnected actors, providing non-redundant

information and closure within group. The study showed a maximum performance of small cohesive groups with diverse external contacts and minimum performance of divisive groups with homogeneous external contacts. Performance in this respect refers to innovation, compensation and profit.

In the social capital discourse Bourdieu (1986) introduced four categories of capital, distinguishing between economic capital, cultural capital, social capital and symbolic capital. Economic capital is accumulated labour and summarises the material aspects of capital. Economic capital can be converted or consist of money. In contrast to economic capital cultural capital is non-materialistic by its nature and consists of three sub-categories; embodied, objectivised and institutionalised. Embodied cultural capital describes abilities or capacities of a person. This sub-category of cultural capital is non-transferable to another person it is embodied by its owner. Education is an example of embodied cultural capital. Embodied cultural capital is reflected by a person's habitus, signalling education, knowledge and other capacities by internalised behaviour which can be decoded and interpreted by other members of the same society sharing the same *modus operandi*. As is the case with other sub-categories of cultural capital, the relation between embodied cultural capital and economic capital is mutually reinforcing. Acquiring embodied cultural capital requires resources in the form of economic capital, while cultural capital can materialise in economic capital. Objectivised cultural capital differs from embodied cultural capital by its transferability as it consists of goods like paintings or pieces of art than can be traded. Bourdieu (1986) argues that although it can be transferred and owned by anybody commanding over sufficient resources of economic capital, embodied cultural capital is a condition to make use of objectivised cultural capital - as only with a certain degree of education or knowledge of art can a person identify the artistic value of a painting for example. The third sub-category,

institutionalised cultural capital consists of a formalised form of embodied cultural capital like titles or university degrees. This type of cultural capital represents in a formal way the embodied cultural capital of the owner, is as well on-transferable facilitates the transfer of cultural capital to economic capital.

Social capital according to Bourdieu consists of actual or potential resources based on personal relations. The value of social capital grows with the size of a person's network and the ability to mobilise these relationships for its own purposes. The cultural and economic capital of the actors in the network increases the value of social capital exponentially. A network of persons rich in cultural and economic capital can be of benefit to those embedded in such a network. Again social capital, cultural capital and economic capital are interrelated by their nature. Social capital contributes to economic capital and can enhance embodied cultural capital. At the same time do cultural and economic capital facilitate the acquisition of social capital or are even mandatory for gaining access to relevant social capital. Cultural capital and particularly the resulting habitus signalling an individual's stock of cultural capital can provide access to relevant actors in a society. As cultural capital as a cornerstone for the acquisition of social capital requires certain resources of economic capital, access to the beneficiary effects of social capital is limited to those commanding over sufficient resources already. This view of society as a relatively static construct of layers of social classes with limited inter-class mobility has been criticised as overly deterministic (Appelrouth and Edles, 2012). The view in sociology according to which structure determines the fates of individuals depriving them of choices and options is considered the oversocialised view.

From an economic perspective Bourdieu's conception of social capital is particularly important for the analysis of the role, functions and social dynamics of networks in economies

and business organisations. Maclean, Harvey and Chia (2010) have analysed social capital in the networks of entrepreneurial elites and the function of cultural capital in gaining access to these networks. Although Bourdieu's model of social capital and the notion of habitus are significant aspects in the research of social relations and trust in economic systems, the approach applied treats social capital as an individual resource rather than a collective one. As discussed above social capital can be categorised as individual and collective social capital. While individual social capital is a resource owned by one actor aiming to maximise it, collective social capital is a social structure benefiting a larger group of people. The nature of collective social capital is that it facilitates trust among group members and can be a base for collective action. As this research focuses on the trust-building and collective action function of Wasta, which then by definition must be considered a type of collective social capital, the model of Bourdieu only partially contributes to the conceptualisation in this analysis. This research aims to contribute to the understanding of the role of Wasta in the process of trust-building in collective action situations. The model of Wasta has presented and visualised the categories of Wasta derived from existing literature. The understanding of social capital applied by Bourdieu as an accumulation for individual benefit is a concept rather suitable for an analysis of the rent-seeking dimensions of Wasta. As Wasta in modern social life has a strong rent-seeking and cronyism connotation, Bourdieu's approach certainly would be a concept contributing to the understanding of Wasta as social capital in these dimensions. The focus of this research however lies very explicitly in the trust-building function as collective social capital and a facilitator of collective action.

However as the category of habitus is considered social capital providing a common base for the establishment of new social ties, this aspect will be further considered in the analysis of

data. Habitus and its culture-specificity can serve as an antecedent of trust between strangers and so contribute to and facilitate collective action between actors.

The plethora of concepts in the social capital domain refer to a confusing variety of dimensions of social cooperation. This research will focus on the conception of social capital as a structure of personal social ties and practices, building on informal institutions contributing either to the benefit of individuals or entire groups, emphasising the dimension of personalism.

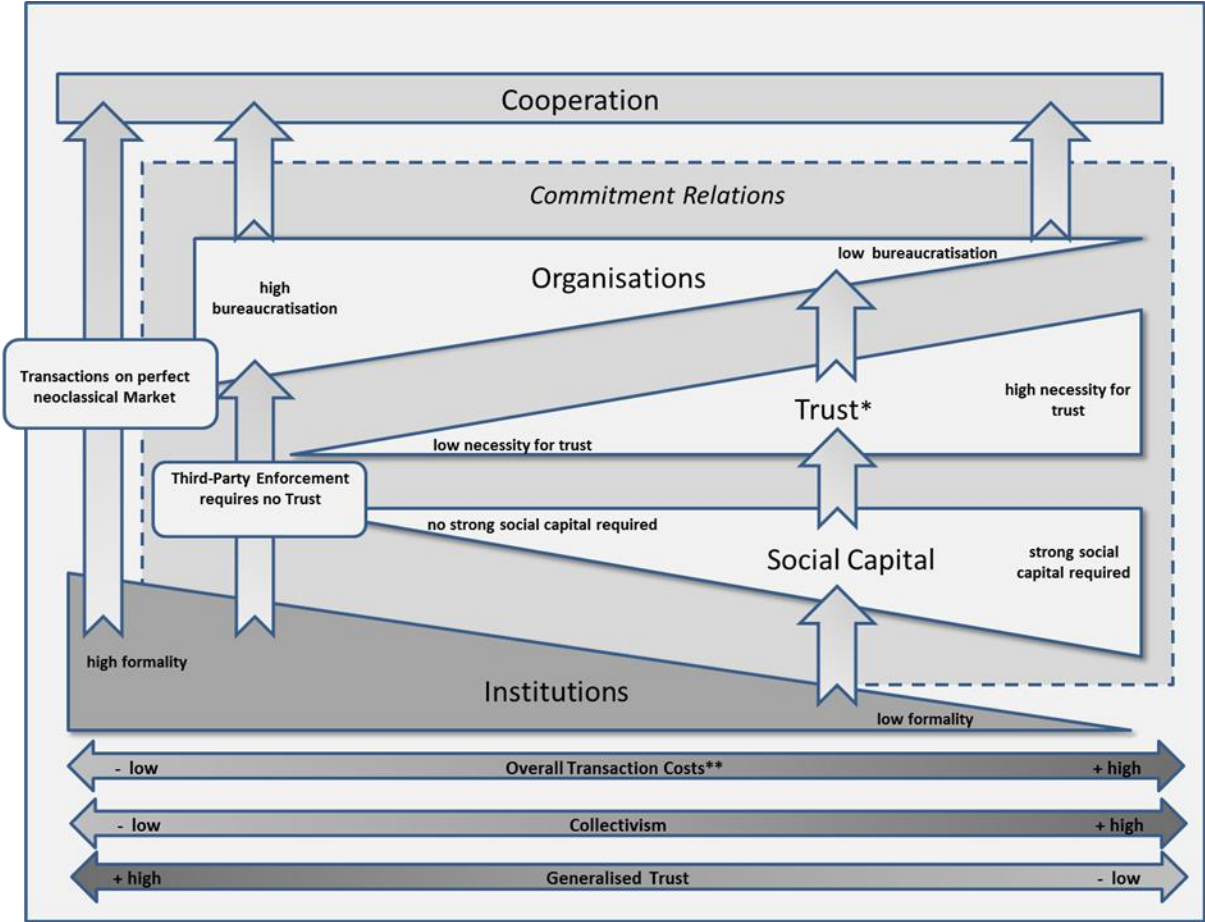
3.6 Trust

Institutional theory is the conceptual framework of this research. As described in table 3.1, the formality of institutions can vary between highly formal institutions like codified law and regulations and informal institutions based on trust. This chapter explores the existing literature dealing with the concept of trust, discusses the function of trust in social cooperation from an institutional perspective and identifies a definition of trust relevant for this research. As illustrated in figure 3.4, trust is considered crucial in order to achieve collective action in settings which are lacking the support of formal institutions. Considering the great variety of trust-concepts, which will be discussed below, this research conceptualises trust as the expectation that others will not exploit opportunism (Noteboom et al. 1997). Figure 3.3 visualises the relation between the concepts of trust, social capital and institutions.

This analysis focuses on the institutional function of trust and applies a structural framework. By reviewing relevant concepts of trust, it will demonstrate how and in which settings trust can emerge as a base of social cooperation. By analysing the structural conditions required for cooperation based on personal trust, the implications of the degree of personalism of the institutional base will be explored. This chapter will provide a detailed analysis of structural

aspects of trust and institutions which provides the theoretical foundations of a model presented in chapter four connecting the structure of trust to theories of organisational behaviour.

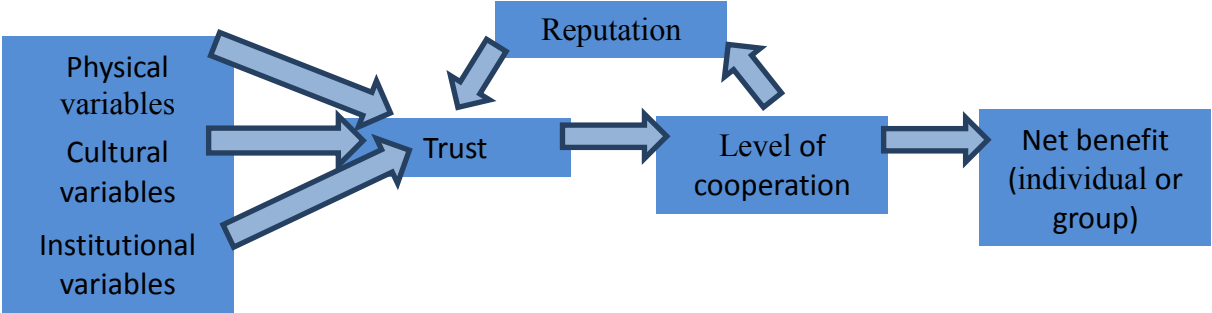
Figure 3.3: Institutions, Social, Capital and Trust



Similar to the concept of social capital, the trust discourse has developed a large number of definitions and approaches to operationalise it. The basic conception of trust as a mechanism that reduces complexity in a system as defined by Luhman (1968) extended to a more complex and multidimensional construct. The elusive character of scientific definitions of trust is a major obstacle for research in the trust-domain. Depending on its function and application an unobservable number of concepts of trust exist. Luhman distinguished between systemic and personalised trust. Systemic trust relies on anonymous formal institutions such

as a codified law and the state that enforces it. Personalised trust typically exists within a family or with friends. Systemic trust refers to trust in formal institutions, which regulate social interaction; it is required for the functioning of bureaucracies and markets. Personalised trust in contrast relies on the normative function of informal institutions. As explained above, in the absence of formal institutions personal monitoring and reputation mechanisms are the pillars of trust.

Figure 3.4: Cooperation in Repeated Interaction



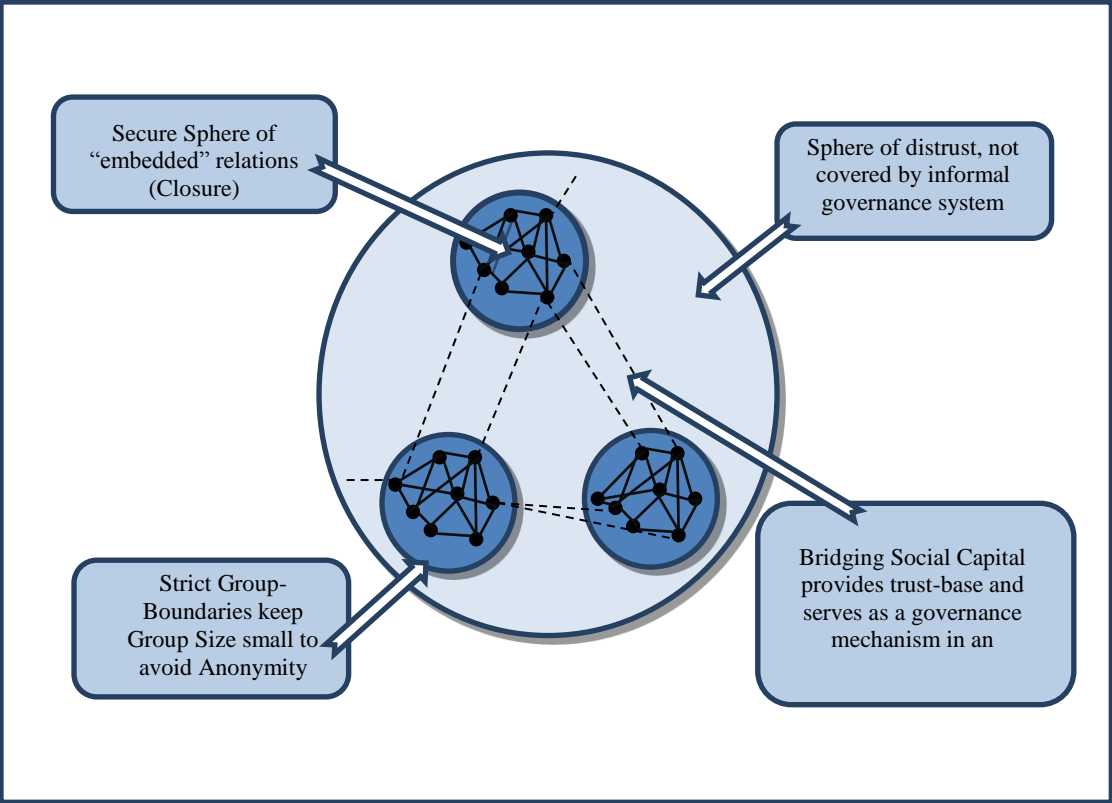
Source: Ostrom (2005)

This figure illustrates how trust emerges in repeated interaction. While physical, cultural and institutional variables are important factors for trust emergence, reputation is crucial in repeated interactions for which trust is required. If reputation is damaged through opportunistic behaviour, the trust base is destroyed and further cooperation is unlikely to occur.

In the case of bonding social capital, trust exists within traditional hierarchies and does not need to be established by elaborate processes. In systems of informal institutions and personalised trust, the existence of bridging social capital cannot be taken for granted but

needs to be created by building trust for intergroup cooperation. Due to the nature of personal governance systems the in-group status needs to be limited and kept exclusive, so that the trust building process with outsiders is a complicated venture. In societies with self-enforcing institutions that have no third party enforcement in operation, personalised trust is an indispensable feature of cooperation. Due to the exclusivity and limited size of informal groups, the institutions they are built on can be referred to as particularistic institutions, in contrast to formal ones which are available equally to everybody, so they can be termed universalistic.

Figure 3.5: Institutions and Particularism



Correspondingly this structure of trust has termed generalised and particularised trust (Igarashi, Kashima and Kashima, 2008). Figure 3.5 visualises the structure of particularised trust.

Generalised trust is a type of trust that does not distinguish between an in-group and an out-group member. This concept of trust is considered to be prevalent in societies with strong formal institutions, if and how it correlates with systemic trust is unclear. Particularised trust is shaped by an in-group/out-group distinction (Igarashi et al. 2008). Personalised and particularised trust is what informally organised societies are drawing on. The distinction between in-group and out-group cooperation as it is found in the particularised trust concept, is corresponding to the embeddedness ideas of Granovetter (2005). What he calls embeddedness, describes the probability of defection depending on the integration into a

personal monitoring system. Outside such a system, where behaviour is likely to remain undetected, defection is expected of others and trust does not exist. A relation embedded in a mechanism of personal monitoring of the social capital of particularised trust and cooperation has a safe base. The type of trust dominant in a society varies across cultures and the in-group preference for cooperation of particularised trust is a fundamental aspect of collectivism. In collectivist societies, which require personal monitoring, cooperation only emerges if trust assures that the interaction is safe, which is usually the case within the established collective. Experimental research has demonstrated that in societies showing a high degree of collectivism, repeated cooperation takes place preferably within a group of actors, with which assurance relations have been established in previous rounds, but only if personal monitoring mechanisms are available (Ostrom, 2005). This insight builds the bridge between governance types, trust and culture. The view of collectivist culture as a function to provide trust-based institutions as personal governance systems is called the institutional view of culture (Yamagishi, 2008). The essential point of this concept is that collectives are not just culturally driven phenomena but have the function of institutions to create particularised trust in systems shaped by high degrees of personalism.

The concept of particularised trust which is prevalent in collectivist societies goes beyond Fukuyama's (1996) theory of trust in high-trust and low-trust societies. Fukuyama recognises the ability of cultures to cooperate beyond the sphere of kinship, which enables the creation of large scale economic organisation as a nation's competitive advantage. In societies in which the spheres beyond the family circle are marked by distrust, the growth of corporations is limited which creates a disadvantage in industrialisation and economic growth. Examples of what Fukuyama calls high trust societies are the United States, Germany and Japan, whereas China, Korea, Italy and France are categorised as low-trust societies. What Italy and China

have in common as low trust societies is the “Buddenbrooks” phenomenon, that the strict limitation of trust circles to the family is an obstacle to the survival of the firm over several generations. High trust societies in contrast have developed interaction mechanisms that allow the extension of these circles, so the separation of ownership and management becomes possible and the company can grow and benefit from economies of scale (Fukuyama, 1996). What the institutional view of culture adds to this concept is that trust in collectivist high-trust societies does not automatically exist but can only be created if monitoring institutions are available. Trust in Japan is considered particularistic, and cooperation is marked by long-term assurance relations and an in-group bias (Igarashi et al., 2008). Experimental research has shown an in-group bias and higher contribution rates to the public good within such groups among Japanese participants compared to participants from individualistic societies. These high rates of contribution among the collectivist Japanese could only be sustained if personal monitoring was available (Yamagishi, 2008). Thus according to the institutional view of culture, Japanese society is not simply to be viewed as high-trust, but as a society of particularised and to a certain degree personalised trust, in which bridging social capital depends on the embeddedness of relations. The perceived high trust in Japanese society is the ability to expand the trust experienced by in-group members to circles larger than in societies marked by particularised trust, by monitoring mechanisms that assure that individual contribution is not exploited. Instead of referring to high or low trust but considering the type of trust and structural differences, Yamagishi has termed this type of trust mechanism assurance rather than trust (Biel, 2008). Again referring to the above mentioned coordination problem, this assurance concept connects individuals to form a society and by enabling collective action through informal institutions creates a self-enforcing leviathan.

Despite the neoclassical assumption that in economic systems based on formal institutions, no personal trust is required, commitment relations in the market do exist. Coase (1937) outlined the contradiction of neglecting transaction costs on the one hand and the existence of firms on the other hand. While firms exist to overcome transaction costs and protect against opportunistic behaviour, the structure of firms can vary according to their degree of formal organisation. Chapter four provides a detailed overview of various types of organisations. While formal business organisations rely on rigid and written rules and policies, companies can also rely on the existence of personal trust. An overview of modes of organisation was provided in table 3.1 by the formality scale.

While Coase (1937) outlines the importance of firms to deal with transaction costs, Noteboom (2006) describes the role of trust in modern business organisations as a mechanism to deal with transaction costs. Noteboom argues that even in formal organisations of modern economic systems, personal trust is essential and analyses the psychological processes of the emergence of trust in organisations. Noteboom's organisation-specific concept of trust distinguishes between characteristics-based trust, institutions-based trust and process-based trust. While characteristics-based trust and process-based trust both rely on informal institutions, institutions-based trust builds on rules and professional standards, which in contrast are formal institutions. The argument that institutional structure and strongly personalistic, trust-based interaction determines organisational behaviour, particularly a company's learning and innovation capacity, will be elaborated further in chapter four. (Noteboom and Six, 2003)

The above presented concepts of trust provide a structural framework for a theoretical approximation of this complex social phenomenon in the context of this research. Nevertheless, theoretical inconsistencies and the lack of verification through empirical

research limit the applicability of the concepts. Generalised trust conceptualises if existing trust in other persons is limited to a pre-defined in-group or if strangers are generally trusted. The world value survey assesses the prevalence of generalised trust in countries across the world, by asking if “Most people can be trusted”(World value survey, 2014). Treating this concept as a dichotomy of generalised and particularised trust this means that one dimension assuming a high level of generalised trust implies a low level of particularised trust and vice versa. The term applied by the world value survey nevertheless fully captures the complexity of the researched phenomenon. A participant responding with a high degree of generalised trust can still show a high degree of particularised trust if social contacts are limited to members of trusted in-group and “most people” are the interaction partners of a closed network. The concept of particularism does not reflect the size of the particular in-group. If generalised trust is not prevalent, the size of the particularistic in-group matters. The in-group can be an entire nation with trust based on a shared ethnic background, a company with common corporate culture as a trust base, or family. These differences cannot simply be explained by high or low degrees of generalised trust.

The distinction between personalised and systemic trust is a helpful theoretical concept but must also be assessed critically and appears to be no clear either/or. Choosing between personalised and systemic trust assumes that individuals act according to an inherent type of trust irrespective of the institutional environment available. Although systemic trust is considered a type of trust focusing on formal institutions, the existence of efficient formal institutions can foster the trust between persons on the individual level and so enhance personal trust. In this case one trust dimension might influence the other and the assumption of the one-dimensionality of this construct must be questioned.

The explanation of the relation between collectivism and trust and the normative function of embeddedness is based on results from experiments under laboratory conditions. Although these empirical approaches contribute valuable insights, their ability to explain entire and very complex cultural institutional artefacts is limited. It must be assessed if these results can be transferred to more realistic settings and if they are stable enough to explain culturally determined behaviours of entire nations. Experiments also ignore individual differences within groups and potentially overemphasise national culture as an influence factor.

While the above reviewed concepts focus on the types and structure of trust, they provide no explanation of how trust emerges. Assuming that in social and economic cooperation trust to a certain degree is always required, it is vital to understand the antecedents of trust in the setting. Although the above discussed concepts deal with the structure of trust, they are insufficient to provide explanations regarding the process of building trust. Although research has dealt with trust-creating processes the scope has been limited to North American or European settings, ignoring idiosyncrasies regarding trust building mechanisms. Wasti, Tan and Erdil (2007) criticise the ethnocentricity of previous research and outline the cultural specificity of antecedents of trust. By analysing the process of building personal trust between managers in Turkey and China, Wasti, Tan and Erdil demonstrate how building trust varies across cultural settings. Assuming that trust is required in cooperation scenarios, it is vital to understand the antecedents of trust in a setting. They are embedded in a local cultural narrative and are based on the institutional foundation of a society. Guanxi in China and Blat in Russia (Michailova and Worm, 2003; Weir and Hutchings 2005; Hutchings and Weir 2006) are examples of culture-specific networking mechanism facilitating the creation of trust. Referring to the three dimensions of trust identified by Schoorman (Schoorman, Mayer and Davis, 2007) - ability, benevolence and integrity - Wasti Tan and Erdil in their analysis of

antecedents of trust suggested that the trust aspect of benevolence is particularly culture-specific. Culture-specific processes of creating trust describe how potential cooperation partners can be convinced of the benevolent intentions of actors. While Wasti Tan and Erdil outline the culture-specific nature of trust building processes and contribute to an understanding of idiosyncratic antecedents of trust, the emphasis is on dyadic relations. Focussing on the emergence of trust in dyadic interactions neglects triadic trust and the role of middlepersons in the process of both trust building and trust repair. Particularly in Middle Eastern cultures in which mediation is a central pillar of social organisation, repair depends on triadic relations.

Schoorman, Meyer and Davis (2007) contribute to the discussion of trust a more differentiated view of this social phenomenon by introducing three dimensions of trust called ability, benevolence and integrity. The dimension of benevolence refers to the choice of actors to act opportunistically and exploit information or power asymmetries. If one actor enjoys high trust in the benevolence dimension the expectation is that possibilities to cheat or violate an agreement will not be exploited. If trust contains vulnerability against the actions of another actor, then one condition for trust is the expectation of benevolence. While in the discussion of trust the focus is on the expectation of one actor that another actor will not act opportunistically, the possibility that the cooperation might fail despite benevolent intentions is mostly neglected in the discussion.

The dimension of ability describes the expectation that one actor is actually capable of fulfilling a commitment. While the benevolence dimension addresses the willingness to cooperate with limiting on the choice between cooperation and defection, ability includes the possibility that the trusting party will be hurt without a defection strategy of the cooperation partner. The ability dimension in this model of trust conceptualises the belief in the

competence of cooperation partners. This expands the view of trust beyond the game-theoretic perception of binary choices of rational actors to a perception of trust which is closer to the complexity of real social interaction. In this model one actor can enjoy a high degree of trust in the benevolence dimension but still face distrust in its ability. This aspect is crucial for the evaluation of trust since in a business setting the possibility of a business partner failing to fulfil an agreement is as much a threat as outright opportunistic behaviour. As trust is particularly important in environments in which information is difficult to codify and competence difficult to assess, the belief in the business partners' competence is at least as important as belief in the benevolent intentions of the trustee.

The third dimension, integrity, describes the expectation that others will act in accordance with their own rules and set of values. An actor with a high degree of integrity shows no discrepancy between the ethics and behaviour of the actor. Trust in the integrity dimension contains the expectation that actions will not violate the defined standards of a trustee be it an organisation or an individual.

While benevolence and ability provide valuable distinctions in the trust discourse, introducing the integrity dimension raises questions regarding the logical consistency of the model. Considering the definition of integrity it remains unclear how it structurally differs from benevolence. Assuming that internal sets of values realistically contain a high degree of benevolence, integrity effectively equals benevolence. The integrity dimension fails to convince logically and does not contribute to the advancement of a model of trust.

In relation to culture Schoorman, Meyer and Davis (2007) point out that in different cultures each of the three dimensions of benevolence, ability and integrity might play a different role. A distinction is made between task oriented cultures and relationship oriented cultures. While

in task oriented cultures initial trust is supposed to be relatively higher, in relationship oriented cultures trust takes longer to develop and evolves over time. Referring to their three dimensions they argue that in masculine cultures more emphasis is put on ability, while feminine cultures put relatively more emphasis on the benevolence dimensions. These assumptions provide concepts regarding the relation between trust and culture, but lack a sufficient empirical base to be verified. The argument that trust in relationship oriented cultures takes more time to develop, however, is to some degree tautological, since if relationships are the base of trust and need to be established for trust to emerge the process of building a relationship must take time. Generally it must be assumed that benevolence is more important in an environment in which formal institutions are weak. In such a setting no protection against opportunistic behaviour exists and trust in benevolent behaviour is vital. Trust in ability however is crucial if protection against opportunism exists through formal institutions but ability is difficult to assess ex ante. In case of an information asymmetry it is vital that the trustor is convinced of the trustee's competence.

Although personal trust by definition occurs between individuals, if the trustworthiness of potential cooperation partners is assessed the collective background of an actor influences the perception of its trustworthiness. Experiences with other members of the same group have an impact on trust if a new cooperation is set up, in which case trust experienced by other group member can be transferred, at least at an initial stage. McEvily et al. (2006) have demonstrated the transferability of trust to other group members. This approach contributes to the trust discussion by demonstrating that trust can become a public good and introduces a collective dimension of trust. This perspective is particularly important in situations in which bridging social capital needs to be created in environments in which cooperation is predominantly based on informal institutions. This shows that the normative function of

reputational mechanisms in networks has an impact beyond the sphere of direct cooperation partners of the defecting actor. If experiences with actors in a network influence trust with other actors of the same group, normative pressure within the group to avoid defection with actors outside the group in order to maintain a collective trust base must be expected. Insights gained by the research of McEvily et al. (2006) however are only to a limited degree transferable to real social interaction, since empirical data was gathered in an artificial laboratory environment. A group identity and consequently trust in a group can only emerge after a certain period of time and considerable experience with group members. Artificially defined groups in experiments do not provide a sufficient identity to insiders and outsiders to allow conclusions regarding the transferability of trust in real social interactions. Furthermore the model only vaguely defines a group. While in the experimental setting groups are clearly defined, in reality every individual belongs to a number of overlapping social groups both formal and informal. The impact of culture on the transferability of trust remains unclear. As the identification with groups varies between individualistic and collectivist cultures, it can be assumed that the dimension of collectivism also impacts transferability of trust. This assumption however to date lacks an empirical base.

Antecedents of trust can be classified according to three categories, dispositional, relational and situational. The role of individual traits in the process of trust emergence is described by the category of dispositional trust. The individual predisposition regarding trust in other individuals varies and impacts the success of attempts to establish trust. The higher the predisposition to trust others, the higher the probability of success of a cooperation based on trust. Trust is more likely to emerge between individuals sharing certain characteristics. In the trust discourse this is described as homophily. Two actors with a similar social background sharing collective experiences have a better ability to estimate the behaviour of interaction

partners than actors from two different social groups. The competence to understand the idiosyncratic social codes of a group is an important base for the evaluation of the trustworthiness of a trustee. Research has demonstrated that trust is more likely to emerge if actors share some significant characteristics like ethnicity or in some cases nationality (Huff and Kelley, 2003). As dispositional factors vary across cultures, culture-specific antecedents of trust are an idiosyncratic type of social capital. Difficulties in interpreting the social codes of strangers lead to an information asymmetry in the assessment of the trustworthiness resulting in an in-group bias.

Relational factors summarise the past experiences of the trustor with other actors in the network, dealing with both direct and indirect contacts through common third parties, the emergence of trust through interaction with other actors and established through common contacts or mediators has been termed process-based trust by Zucker (1986). Granovetter (1994) describes structural holes in networks of relations based on strong ties closed by what he calls the “tertius iungens”. This chapter describes in detail the relational factors in the process of closing structural holes and the creation of process-based trust. While process-based trust describes the emergence of trust through interaction in a structurally embedded network, knowledge-based trust as discussed by Lewicki and Bunker (1995) conceptualises the effect of trust emerging through positive experiences in repeated interaction. Relational factors are not limited to direct contacts but also contain the effects of third parties between actors. Burt (1995) demonstrates how trust emergence is influenced by third parties between trustor and trustee. A fundamental aspect in this setting is the perceived distance between actors. Only third parties considered equally close or distant to both trustor and trustee contribute positively to the emergence of mutual trust. An actor with asymmetric relations and perceived higher cognitive distance to one actor can have negative effects on relational factors

and process-based trust and even lead to distrust. The aspect of alliances in triads and the outcome in triadic relations is discussed in detail in chapter 3.9.

Situational factors refer to relation specific setting in which cooperation takes place. This takes into consideration the context-specific risk. Risk in cooperation is determined by the probability of opportunistic behaviour and competence or capacity of the trustee. Information asymmetries through limited codifiability increase risk for the trustor. Difficulties in assessing the quality of an exchanged commodity *ex ante* increase the possibility for the trustee to defect. The study of the market for lemons by Akerlof (1970) and experimental studies by Kollock (1994) describe the risk of information asymmetries in economic transactions. In settings of asymmetric information and situational factors containing high risk, trust is required to reduce transaction costs and allow cooperation.

Although trust is considered a mechanism reducing transaction costs in economic transactions, particularly in the absence of formal institutions or if the nature of the exchanged commodity does not allow codifying characteristics and quality, the level of trust can exceed an optimum. As Gargiulo and Ertug (2006) point out trust has also its “dark side”. The consequences they identify are lower monitoring and vigilance, greater commitment and lower conflict as well as greater scale and scope of relationships. Excessive trust it is argued leads to blind faith, complacency and excess obligations. While blind faith and complacency increase the vulnerability of the trustor by providing increased possibilities for defection and opportunism, excessive obligations are a particular harmful aspect of trust. Repeated interaction and growing trust relations run the risk of becoming “over embedded”. In this case the behaviour of actors is constrained by obligations from relationships which is called a “hold-up situation” in institutional economics. This over-embeddedness is a fundamental aspect in *Wasta* relations since middlepersons or *Waseets* are often expected to use their

relations for the benefit of the others' party even if harming a third party. The relation between this rent-seeking aspect of trust and informal institutions is discussed in chapter two. As outlined here the threat of the dark side of trust in settings of informal institutions poses a catch twenty-two situation. Economic relations based on personal trust are prone to abuse and rent seeking behaviour; attempts to overcome these problems through a formalisation or interactions can result in a "crowding-out effect". The relation between formality of institutions and the crowding-out effect is discussed in detail earlier. While personal trust is a condition crucial for cooperation in settings based on informal institutions but at the same time faces the risk of being abused by individual attempts of rent-seeking, a differentiated analysis of the impacts of trust and personalism on social cooperation is required. Gargiulo and Ertug (2006) claim that abuse of trust and negative effects of trust are a matter of degree and caused by excessive trust, the impact of the structure of relations, the power, type and embeddedness of actors, is completely neglected.

While this chapter has presented trust as a mechanism enabling social interaction in spheres lacking assurance through social institutions, Bachman (1999) extends this framework by the aspect of power. By contrasting the institutional environments for companies in the United Kingdom and Germany, Bachmann argues that the type of institutional setting determines the choice of an actor to trust or rely on power as a coercion mechanism. In a predictable institutional setting, actors can interact based on trust implicitly assuming protection against opportunism. In an environment showing relatively less reliability and predictability, actors require power as the means of coercion as a base for cooperation. Bachmann assumes that in an institutional vacuum the more powerful actor can dominate the weaker one and enforce its aims. While trust requires an institutional setting to fulfil its function, power is required if institutions as an assurance mechanism are absent.

The notion of power is certainly a vital aspect in the arena of social interaction, however the conceptualisations of trust and power deviate from the concepts on which this research is based and lack coherence. In the model of Bachmann, trust is reduced to the dimension of systemic trust as defined by Luhman (1968). The assumption that trust only emerges if secure institutions are available is to a degree counterintuitive. Why is trust required at all if actors can draw on the protective mechanisms of formal institutions? As discussed above it is assumed that trusting means for an actor to accept vulnerability against the actions of others, which is the case in an environment lacking institutional protection. Personal trust as a base of cooperation beyond spheres of formal institutions is neglected by Bachmann. Only in an extreme case of a complete absence of any institutions, either formal or informal, would power be the alternative to trust. In this research it is assumed that power and trust are not two competing concepts but complement each other, particularly in the field of informal institutions.

The power function of an actor is based on a variety of factors. While, personality and charisma must be taken into consideration as aspects of an individual's power, the social and structural embeddedness also contribute to the power of an actor. As defined above, structural embeddedness is considered a type of social capital and as contributing to personal trust. An actor's structural power as social capital can allow trusting in an environment lacking assurance of formal institutions.

As discussed above, research has brought up a wide range of conceptualisations of trust with often confusing and contradicting assumptions and categories. The review of the trust literature aims to introduce the trust discourse and identify a concept of trust both viable and relevant to this research. Reflecting on the plethora of concepts provided by trust research

Noteboom (2006a) identifies contradictions and nine paradoxes of trust, which highlight the ambiguity of the trust concepts.

Paradoxes of Trust

- Goes beyond self-interest but has limits
- Entails a state of mind and a state of action.
- May concern competence or intentions.
- Is based on information and the lack of it.
- Is rational and emotional.
- Is an expectation but not a probability.
- Is needed but can have adverse effects.
- May be broken and deepened by conflict.
- Is both a basis and an outcome of relations.

This research considers trust as a facilitator of collective action in informal settings in interpersonal relations. Considering the wide range of structural conceptualisations, trust is approached as a state of mind in which trustors make themselves vulnerable to the actions of trustees. Based on this concept the researched phenomenon of Wasta will be approached and all relevant categories and dimensions of trust will be discussed in chapter eight.

3.7 Structure and Mechanisms of Informal Institutions

This chapter demonstrates how informal institutions work, which mechanisms they draw on and the implications for social structures. By introducing the sociometric perspective and terminology of social network analysis, the structural requirements for the functioning of informal institutions will be discussed. Furthermore, this chapter analyses in detail the

concepts of reciprocity and mediation and explains the mechanisms on which informal institutions are based. By applying the framework discussed above, this chapter provides an insight into the structure and functions of informal institutions. Based on sociometric categories one type of social capital particularly relevant for this research, network closure, is introduced and discussed from an institutional perspective.

Social network analysis investigates the structure of social relationships between individuals. By testing which social entities maintain relationships with each other and by measuring the quality of these relationships social network analysis visualises the structure of networks in social systems. The structure of social relationships that individuals maintain is a crucial factor in the analysis of a wide field of individual and collective action.

Relationships, or ties, between an ego and its alters can be analysed according to three dimensions:

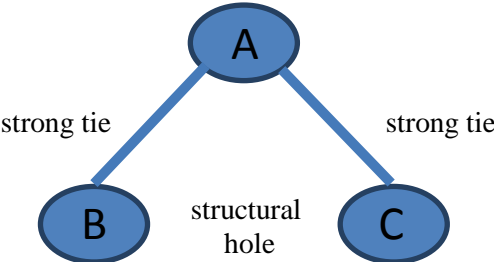
- frequency of interaction
- cognitive distance
- duration of the relationship

Ties between two actors, or dyadic relationships, are classified as either strong or weak according to the above mentioned parameters. Strong ties are characterised by a high frequency of interaction, low cognitive distance and a long duration of the relationship, the opposite applies to the category of weak ties (Uzzi and Lancaster, 2003).

Whereas strong ties which are maintained with family and acquaintances provide emotional support and solidarity, weak ties connect an ego to alters from a more distant environment and are building a bridge to actors that are otherwise not connected with each other. Because

strong ties are characterised by a relationship that is resource intensive to maintain, an ego can only hold a limited number of them. Alters to which an ego maintains strong ties generally also maintain strong ties with each other, since two egos that are connected to the same alter by strong ties are very likely to interact and create a social tie. A constellation in which this third tie does not emerge, and only two strong ties exist within a triad has been termed a “forbidden triad” by Granovetter, illustrated below. Granovetter argues that an actor who maintains two strong ties with two other actors it is very unlikely that the structural hole would remain open and that the unfamiliar actors would not get introduced to each other through the broker (Granovetter 1973).

Figure 3.3: The Forbidden Triad



Source Granovetter (1973)

Due to this high degree of interconnectedness not much new information is distributed within this network of strong ties but rather old information is recycled. A network consisting of too many contacts providing redundant information is inefficient, since each relationship increases coordination costs but add no informational value. In contrast weak ties provide novel information and are a crucial source of vital knowledge of an ego's network. Weak ties play a crucial role in modernisation-, innovation-, and diffusion-processes; they create a flow of information between clusters of strong ties.

It is not just the type of information flowing along weak ties that makes them a strategic asset, but also the structural exclusive position that an ego maintains by the lack of a direct tie between two alters to which an ego is connected by weak ties. In such a constellation an ego holds a brokerage position which is called the “tertius gaudens”, the third that rejoices.

Network analysis not only focuses on the individual tie or relationship that an ego maintains with its alters, but the structure of the entire network and the connections between the alters. Among a variety of parameters network density is the most important structural characteristic of a social network. Network density describes the degree to which each entity in the network maintains a tie with each other entity in the network. It calculates the relation between the actually existing ties within a network and the maximum number of possible ties between all actors. In a network that shows a maximum degree of density every actor maintains a direct tie with each other actor in the network (Knoke and Yang, 2008).

3.7.1 Social Structure and Norm Enforcement

Dense and closed networks consisting of strong ties can serve as instruments to enforce common norms and values. Through the many paths within the network information can be easily transmitted and norms and values effectively communicated, so that each member is informed about which social behaviour is desirable and which is not.

The dense and effective communication channels do not just allow a transmission of norms but also spread the information about defection or deviation from commonly agreed norms. Such an observation creates strong peer pressure and reduces the risk of opportunistic misbehaviour and the abuse of trust. Since information about one's behaviour, not only misbehaviour, is quickly communicated within the network, closure is a condition for the

development of an individual's reputation. Reputation that arises through repeated interaction creates trust within the network, for which closure is a precondition (Coleman, 1988).

This efficient type of governance reduces transaction costs within the network, allows a learning process despite an uncertain environment and enables the emergence of collective identities. Governance systems of common goods, particularly in third world countries, that are self-organised and rely on group pressure mechanisms for enforcement have proven to coordinate common resource more sustainable than systems that are enforced by external state institutions. This demonstrates the power of group pressure as a normative institution in certain environments (Ostrom, 2000).

A condition for the monitoring function of networks apart from density is the definition of clear boundaries and the creation of an in-group/out-group distinction, which effectively results in the discrimination of outsiders faced with distrust from in-group members. In uncertain environments clear and strict group boundaries reduce the coordination costs for the individual in the selection of cooperation partners that can be trusted.

A social structure of a dense network with clear boundaries and in-group identity is very efficient in overcoming the public goods problem which collectives have to deal with. An analysis of self-organized governance regimes of public resources that lack an external coordination mechanism like state institutions, has shown that clear definition of group identity and the restriction of membership are crucial factors for success in overcoming public good dilemmas (Ostrom, 2000).

Since the normative function of networks as a governance system depends on a face to face communication type of strong tie relationships and individual actors can only maintain a limited number of such strong ties due to the social and cognitive costs associated with them,

networks can only serve as facilitators for collective action if they do not extend beyond a certain size. If a collective grows beyond the size in which each individual can effectively maintain personal face to face relations with each other member of the group, a situation of anonymity allows the emergence of free-rider behaviour. The limits of the extendibility of such social structures mark a disadvantage of this type of governance, since the organisation could not grow even if it benefited from it economically. Although the in-group/out-group definition varies widely depending on the purpose of the group, kinship plays a major role particularly in societies that have to rely on such informal institutions due to the lack of more universal regulatory instruments (Noteboom, 2006).

Nevertheless the success of closed groups as normative institutions depends on the degree to which individuals care about the loss of social status and perceive it as a potential threat. This degree varies across cultures and is observed to be stronger in collectivist societies, particularly in East Asian societies, where the individual largely defines identity through group membership and where becoming an in-group member is often denied, the lack of an exit strategy disciplines the behaviour of individuals within the group (Yamagishi, 2008).

The social pressure within dense and cohesive groups that ensures the enforcement of the group's norms creates stability and certainty within the collective and makes the behaviour of in-group members more predictable, on the other hand it can lead to stagnation and a suboptimal utilisation of resources. Coleman's description of a schoolboy investing energy in playing football despite an individual preference and talent for playing the violin due to the fear of a loss of social status, provides an example of group pressure leading to an economic dead weight loss. Depending on alternative possibilities in the market outside the collective, group membership and a strong in-group bias can be associated with high opportunity costs for the individual (Coleman, 1988).

Furthermore, collectives based on closed and densely knit networks with strict boundaries and a focus on in-group cooperation and an overly distrustful attitude towards outsiders face the threat of a lack of weak ties. As described above, weak ties serve the function of a source of novel information, and provide essential information about adoptions and changes in the social environment. Groups that fail to stay informed about environmental developments, be it institutional, economic or technical, are substantially endangered. The lack of knowledge about alternatives reduces the bargain power against other actors on the market (Granovetter 1973).

Summarising the structural advantages of both network types, dense and closed or open, closed networks maintain group resources and enforce existing norms, whereas open networks are more efficient in obtaining additional resources. Social structure which serves one purpose, such as collective solidarity, can be damaging for other aims like gathering information from a diverse background.

3.7.2 Structural Embeddedness

Moving from the perspective of a complete network to the individual level or an egocentric network analysis, actors of a dense and cohesive network linked to many other actors are called structurally embedded.

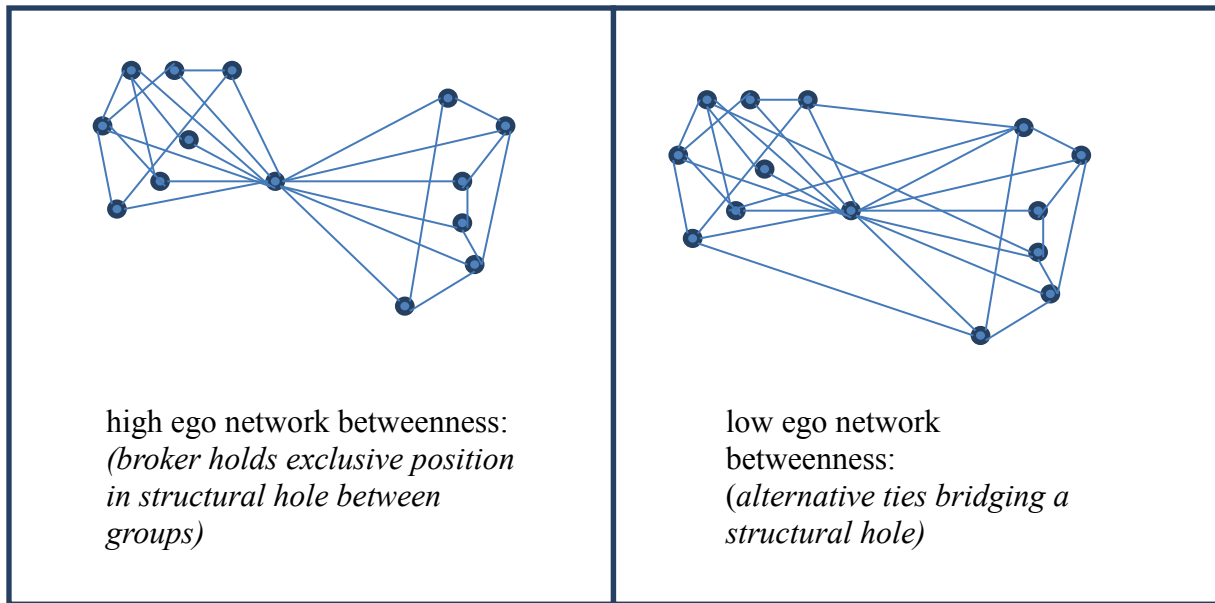
The structural embeddedness of an actor in a social network is measured by its degree centrality. The higher the degree centrality, the more direct ties with other individuals are maintained. In order to generate comparability with other networks, the degree centrality is calculated not only based on the absolute number of ties that connect an ego with its alters but the relation of the maximum number of ties which an ego could potentially maintain if it were connected to every actor in the network.

Relationships do not necessarily have to be reciprocal but can also be unidirectional. If an individual only receives or delivers whatever flows along the ties of that relationship, information or favours, the tie could be ingoing or outgoing; according to that structural differentiation a high in-degree or out-degree. The in-degree and out-degree relations an actor maintains, are an indicator of the power status of that actor within the network. A large number of in-degrees demonstrates a powerful position. Particularly in networks in which ties are maintained for opportunistic reasons, a high degree centrality means a large number of potential exchange partners and therefore low dependence on specific alters and strong bargaining power of the ego.

A tie along which resources flow in both directions is neither an in-degree nor an out-degree but reciprocal. An individual strongly embedded in a network shows a high degree centrality with a large number of reciprocal ties. Degree centrality correlates with the market share an actor holds in a network. A network consisting of many actors with a high degree centrality is very dense and shows the characteristics of cohesive networks demonstrated above.

Betweenness centrality analyses the proportion of ties with which an ego is connected to an alter along the shortest possible path. In combination with degree centrality this measure provides a more differentiated picture of an individual's embeddedness in a network (Knoke and Yang, 2008). The figure below illustrates both measures in networks.

Figure 3.4: Ego Network Betweenness in Networks



Source: adapted from Igarashi et al. (2008)

It is not just the mediation and brokerage aspect that provide a high degree of social capital of an actor's structural autonomy; it is also the potential exit strategy. An actor whose cooperation is limited to one group depends on his reputation in that group, which is reached through repeated interaction. If this actor loses the reputation, exchange partners are lost as well. An actor whose position in the network shows a high degree of structural autonomy and whose ties span across structural holes is less vulnerable to punishment by peer-group members and can switch to other cooperation partners. Computer simulations of individual behaviour in networks showed a clear dominance of actors holding several exit options (Burt, 2007). Players who abused others' trust and experienced rejection but had a choice of cooperation partners, gained the largest benefit in these models. Such a network position is marked by low opportunity costs through commitment to a certain group.

The embeddedness of an actor has a severe impact on its social and economic behaviour. The more embedded an actor is, the less deviant and opportunistic behaviour can be expected.

Although, as mentioned above, the degree of the normative effect varies, it accepted that defection is less likely in an embedded relationship (Granovetter, 2005).

3.7.3 Social Embeddedness

Sociology and neoclassical economics hold two contrasting views of individual behaviour, which Granovetter (2005) has termed the over- and under - socialised conceptions of human action.

The oversocialised conception refers to a view in sociology that perceives humans as sensitive to the opinion of others so that norms would be automatically obeyed. This perception of humans considers a wide range of environmental factors that determine individual action. Particularly in the theory of structural functionalism of Parsons and the role theory of Dahrendorf, which overemphasised the role of the structural, individuals have no freedom to make decisions but follow social norms and duties more or less automatically (Appelrouth and Edles, 2012).

The emphasis on socialisation factors as behavioural determinants is criticized by some. “Sociology is all about how people don't have any choices to make” (Granovetter, 1985: 481) summarises the criticism of sociological determinism. Particularly the emphasis on social classes as shaping forces of individuals is neglected as too mechanical and oversimplifying by economists.

In contrast the undersocialised view of human action builds on the premises of a rational and benefit maximising homo economicus to whom social relations do not have an influence on decisions. This atomised view of society and individual action expects economic actors to behave opportunistically. According to neoclassical economists, actors pursue their individual

interest on markets and ignore the interests of the public good but contribute to it through their selfish behaviour coordinated by an invisible hand.

Both perspectives mark extreme positions. It cannot be ignored that individuals often act according to their individual, material interests. But there are also examples of experimental research which show that humans are cooperative, act altruistically and consider issues of fairness in their decisions (Ostrom, 2000).

Since neither view of society is able to provide a comprehensive, universal and sufficient explanation of individual behaviour, a tendency has emerged among economists to anticipate the impact of social relations. With the concept of embeddedness Granovetter combines these two contrasting perspectives and argues that individuals act according to the oversocialised concept within groups and according to the undersocialised concept outside. It is actors that know each other, particularly if they depend on each other, that are connected by the “shadow of the future”, which fosters cooperation in contrast to anonymous actors in a “one shot game”. It is the embeddedness in social networks that enables several types of action, transactions or cooperation.

3.7.4 Normative Power of Closed Networks

As demonstrated above, network closure with its low monitoring costs can serve as a facilitator for social exchange. Depending on the institutional environment compliance enforced through peer-pressure mechanisms can be a matter of survival for the group. The reliance on networks as institutions for social coordination requires clear definition of network boundaries and a group identity that clearly distinguishes in-group and out-group members. The stronger the necessity to form a group and to rely on in-group cooperation, the

stronger the commitment towards the group and the subordination of individual preferences (Yamagishi, 2008).

These characteristics of in-group commitment and compliance are expressed by the cultural dimension of collectivism and vary vastly across cultures. The dimension of collectivism and individualism provides insight into culture specific self-identity and the relation of self versus group. In individualist societies the self is defined as autonomous and independent, having an identity irrespective of group membership. Collectivist societies in contrast, define the individual as interconnected and interdependent with other members of the in-group.

Individualist and collectivist societies differ according to their prioritisation of individual and collective needs. When both types of needs are in conflict individual needs have a higher priority in individualist societies whereas collective needs have the primacy in collectivist structures (Chen, 2000).

Hofstede (2001), whose model for the operationalisation of culture is the backbone of most studies dealing with intercultural issues, has developed the following definition for this cultural dimension:

Individualism describes societies, in which relations between individuals are loose and each individual is expected to care for itself. Its counterpart, collectivism, describes societies in which humans are, from birth on, integrated in strong and closed groups, which provide lifelong protection in exchange for unconditional loyalty. (Hofstede, 2001: 209)

Approaching this distinction from Granovetter's embeddedness theory, collectivism describes the degree to which an individual from a certain culture is embedded in the structures of

certain collectives. In relation to individualists, collectivists in general show stronger group identification, are more embedded in groups and show a stronger compliance towards the group's norms.

A more differentiated perspective on the cultural dimension of collectivism treats it as a two-dimensional construct instead of a one-dimensional one, depending on the level of analysis. Although the one-dimensional view makes sense if the comparison of entire societies or countries is the focus of analysis, empirical research has shown that individuals can score high in both individualism and collectivism. Therefore, the data of models which quantify constructs like a national culture should be interpreted cautiously. Nevertheless, in this research the premise is accepted that in societies, in which collectivist values are predominant, individualistic values are less prevalent.

As briefly mentioned above, group compliance is stronger the more closed collectives are, since the loss of social status might result in the loss of cooperation partners which can pose a vital threat to potential defectors. The environment of sometimes even unconditional trust among group members within the collective is the correlate of distrust to outsiders. If cooperation is dominated by coordination mechanisms of networks, engaging in transactions with anonymous strangers is considered as too risky and therefore becomes unlikely (Cook et al., 2005).

The relatively strong moral obligation that collectivists feel towards their group limits the probability of opportunism within the group whereas the lack of embeddedness outside the group results in the absence of such a moral obligation and defection becomes an option. Empirical research has shown that individualistic societies have developed more universal norms to treat individuals, with low emphasis on group identity whereas different standards

are applied for the treatment of insiders and outsiders. This double standard leads to a “greater zone of moral indifference to out-group members.” (Chen, 2002: 571).

Immoral behaviour against an out-group member is unlikely to be punished by the in-group; if that action benefits the collective; it might even be rewarded by the group. The interconnectedness with other group members perceived by collectivists leads to loyalty to the in-group in a conflict of interests between the in-group and out-group. In the event of a conflict of interests between the self and the in-group, individuals with an individualistic background are expected to show a higher degree of opportunism than a collectivist. Research on the perceived trust towards out-group members in collectivist societies showed negative expectations of cooperation partners who were not in-group members. The lack of embeddedness not only leads to higher opportunism of collectivists, it also leads to collectivists expecting opportunistic behaviour from outsiders. Although this argument contains a degree of tautology, since the environmental hostility is one factor leading to the creation of or reliance on groups and networks, it demonstrates the different approach towards the selection of cooperation-partners in individualistic and collectivistic societies (Chan and Cheng, 2002). This different perception of the trustworthiness of outsiders and different evaluation of risk of cooperation with outsiders, results in a preference of collectivists to deal with in-group members.

Referring again to the embeddedness concept, it can be summarised that behaviour of a collectivist within a group deviates more strongly from behaviour outside a group than is the case for an individualist. So embeddedness as a regulating factor has a more powerful impact on a collectivist, than on an individualist.

This is consistent with findings from experiments, in which participants from collectivist societies showed different degrees of conformity depending on the mechanisms of group monitoring (Yamagishi, 2008). One of the premises for the success of group pressure as a monitoring instrument is, as briefly mentioned above, apart from closure, density and the lack of viable exit strategies, that for participants to whom the loss of face in the group is a severe punishment that, apart from material losses, is a sanction that matters. Sanctioning by groups is basically inefficient in an environment in which actors feel immune to the loss of reputation within the collective. A cultural milieu in which individuals care about the conceptions others hold about themselves is favourable for the enforcement of norms and informal institutions. The concept and fear of losing face within the group in many East-Asian cultures, particularly in Japan, Korea, and Chinese societies is a strong, culture-specific regulating force in social action (Chan and Cheng, 2002).

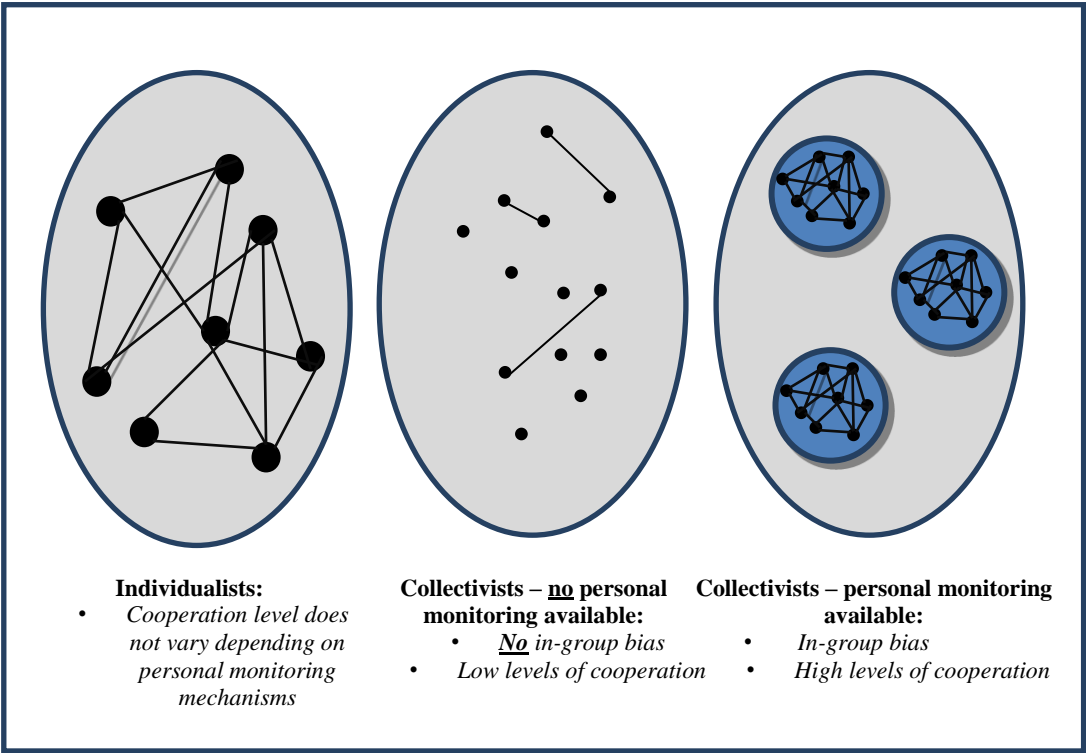
Looking at collectivist societies and normative pressure, again we see a strong in-group/out-group distinction in the preoccupation about the loss of social status. Since the in-group is the preferred sphere of social interaction for a collectivistic conditioned person due to the demonstrated mechanisms, the out-group and the perceived trustworthiness in the out-group matter relatively less than for an individualist. In a collectivist society, normative institutions through mechanisms of social pressure work more strongly within the group than outside.

In what Yamagishi calls the “institutional view of culture” he distinguishes an intrinsic culturally determined behaviour from “culture-specific behaviour as strategies adapted to a set of collectively created social incentives.” (Yamagishi, 2008: 580). Analysing the behaviour of participants of collectivist and individualist societies, in this case Japan and the United States, in terms of conformity by an experiment, Yamagishi claims that conformity is not a general cultural trait of collectivists but rather a strategy of collectivists in a collectivist environment

(Yamagishi, 2008). Given the choice to act according to perceived expectations of peers, collectivists showed conformity only in the scenario of group monitoring. In all other scenarios in which monitoring mechanisms were not in operation, no significant difference between the behaviour of collectivists and individualists could be observed.

Collectivism as a cultural dimension is not about general conformity and compliance, it is about the strength of group boundaries and the responsiveness of individuals towards social pressure from the in-group. Referring again to the embeddedness approach of Granovetter (1973), the distinction between behaviour in an embedded structure corresponding to the concept of “oversocialisation” and a situation of low embeddedness as “undersocialised”, seems to be greater in a collectivist environment. Embeddedness has a greater impact on the actions of collectivists than on individualists’ actions (Yamagishi, 2008).

Figure 3.5: Collectivist Cooperation Depending on Monitoring



3.8 Social Capital and Trust Enhancing Mechanisms

Since the informality of institutions limits their coordinating power to a certain number of participants, informal institutions lack the universal character of formal institutions. As described above the threat of a collapse of informal monitoring systems through anonymity by overexpansion gives informal institutions a particularistic character. Cooperation in societies shaped by personalised trust, informal institutions lacking reliable third party enforcement mechanisms, usually relies on long-term commitment relations and an in-group bias in the selection of cooperation partners. The reputation mechanisms of informal institutions within the group provide a secure domain for interaction, whereas beyond this sphere of embedded relations actors have to fear defection as their partner's strategy. The lack of reliable cooperation facilitators between such groups - structural holes in social network analysis or an absence of bridging social capital - can be an obstacle to economic growth and development (Casson, Della Giusta and Kambhampati, 2010). In the absence of universalistic institutions the required bridging social capital is built through incremental trust building.

3.8.1 Reciprocity

The binding power of social exchange and of accepting a favour or a gift is the base for the initial steps of building trust. The above-mentioned process of Potlatch between North American indigenous tribes, (Mauss and Halls, 1996) summarises the role of giving and accepting gifts for the creation of bridging social capital between groups. Although the rituals of exchanging gifts and the associated ceremonies vary across cultures and such procedures are widely considered as typical for archaic societies or as remains from pre-modern times the binding forces that arise through the acceptance of a gift are considered universal. (Koniordos, 2006) By accepting, the receiver signals willingness to repay equally, though unspecified in

the future. “The need to reciprocate for benefits received in order to continue receiving them serves as a starting mechanism of social interaction and group structure.” (Blau, 2008: 92) In interaction between strangers, which have so far no rules for interaction, the dependency created through receiving favours or gifts facilitates the emergence of rudimentary interaction frameworks. Reciprocity schemes help to build scenarios in which cooperative behaviour and moral action occur without explicit constraints and an oppressive socialisation. Whenever social interaction is faced with non-existent, weak or doubtful coordination frameworks, reciprocity facilitates the creation of bonds. Through the stages by which trust is created by reciprocity; to give, to receive and to render, risk is increased gradually. By starting to give little and then gradually increasing, the risk at stake in the first round in case of a denial by the receiver is kept low.

As Blau notes the trust building function of social exchange does not apply to purely economic exchanges. The striking difference between economic and social exchange in this respect is that obligations which are to be returned in social exchange are unspecified. The main principle of accepting a gift is to repay it in equal terms after a period of time, but what is to be rendered remains unspecified. In a purely economic exchange the terms are specified in a contract and the transaction is usually monetarised. As demonstrated above such economic transaction can result in the crowding out of altruism and benevolent behaviour and are not suitable for the creation of friendship, social bonds and trust (Blau, 2008).

3.8.2 Mediation and Arbitration

Assuming that two actors need to build personal trust between them; actions can be taken to establish a dyadic tie directly between them. The mechanism of reciprocity and giving of gifts in this process has just been described. Another option to bridge a structural hole in a network is to use the assistance of a third party. If the two actors share a common contact, the third

party or broker in this constellation can use their structural position to close the structural hole. A middleperson who helps to build connections in networks is what Simmel (2009) has called the “tertius iungens”, in contrast to the “tertius gaudens” who abuses a structural brokerage-position and avoids network closure in order to maintain structural power in the network. (Kalish, 2008) Societies in which transactions are predominately based on informal institutions need to maintain both a relatively high degree of network closure as well as social embeddedness in order to allow monitoring and sanctioning of individual behaviour. The concept of the forbidden triad by Granovetter (1973), discussed above, describes the tendency of structural holes between two actors sharing a common contact, to which both are linked by strong ties, to close. The frequent and intensive interaction between both egos and the broker make it very likely that the unfamiliar actors will be introduced to each other. The newly established situation of network-closure provides security for future transactions in an environment in which reputational mechanisms and the threat of losing face are effective checks against opportunism. The broker, ideally linked to the network of both trustor and trustee, has the capability to communicate defective behaviour and threaten the reputation of the defector in the network (Burt, 2007).

Besides assisting in the process of creating bridging social capital, brokers can serve as arbitrators in a situation in which trust has been damaged. This form of dispute settling does not require formal institutions to enforce arrangements and can help to provide security in informal environments. The value of arbitration in a business context for creating trust in situations in which both parties have lost confidence in the existing relation, has been described (Klein-Woolthuis, Noteboom and de Jong, 2010). The availability of an informal arbitration-process can significantly contribute to restore trust in business relations. Informal arbitration and a mediator with the charismatic power to provide normative pressure and to

enforce agreements reduces transaction costs in a dispute in an environment of informal institutions. By anticipating the existence of such an assurance mechanism, actors are more likely to trust and enter cooperation. (Kalish, 2008; Möllering, Zebrini and Grosso, 2009; Klein-Woolthuis, Noteboom and de Jong, 2010)

The section above has demonstrated how closed networks, structural embeddedness and strong ties support the power of informal institutions by allowing communicating of defection by actors within groups. Social network analysis provides a suitable methodology and terminology to assess social structures according to their capability to enforce norms by informal institutions. Reciprocity and mediation have been presented as mechanisms of informal institutions which facilitate cooperation in an environment of structural embeddedness, face to face communication and a high degree of personalism.

3.9 Triadic Governance

The focus of this section is the governance function of triadic relations. By applying the framework of institutional theory presented in the sections above and the sociometric categories analysed, the role of brokers, mediators and the dynamics of cooperation in triads will be discussed. After defining triadic relations, a game-theoretic approach will be applied to explain conditions required for cooperation and a typology for concepts of triadic structures. The aim of this section is to provide an understanding of triadic trust and the distinction between beneficial and harmful cooperation in triads, which will be applied to the concept of Wasta at a later stage.

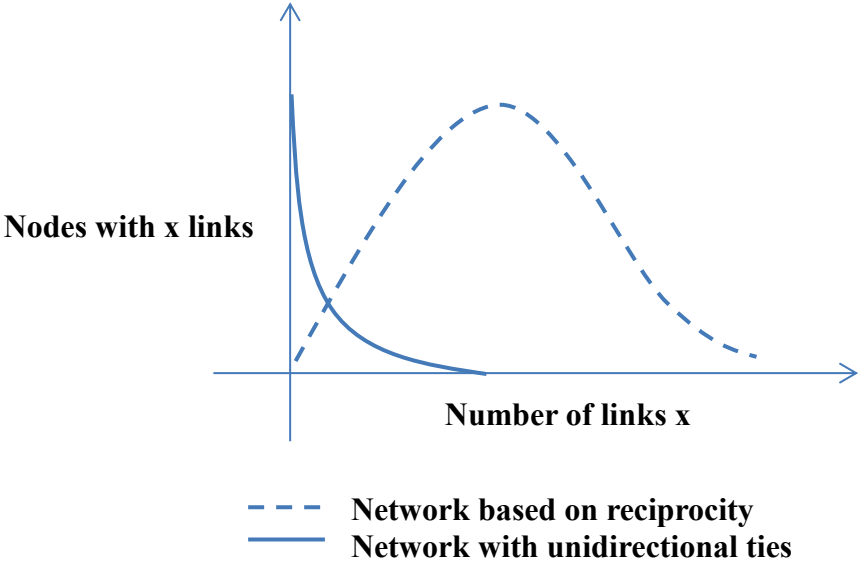
3.9.1 Reciprocity, Mediation and Network-Structure

Two important models exist for the structure of the expansion of social networks. The model of scale-free networks, following the distributional pattern of a power law (Barabási and

Albert, 1999) and random networks a structure of a network with the degree of connectedness normally-distributed among actors (Schnegg, 2006). In a structure expanding according to the patterns of scale-free networks the probability of an actor receiving additional ties is proportional of ties to which an actor is already connected, this pattern is called preferential attachment. Nodes in a network that are linked to two others are twice as likely to receive further connections as the remaining two nodes. Such a growth pattern leads to a network-structure dominated by a few very well connected super-hubs with a high brokerage value. The pattern of scale-free networks has attracted much attention in the scientific community during the last years and a large number of domains where its logic can be applied have been identified, particularly with infrastructure and computer-networks where scale-free networks are common. While in physical networks preferential attachment is common, in social networks the case is different since a large number of factors impact the growth pattern of social structures. Apart from group membership and individual motivation to build relations, reciprocity is a major factor to be considered. The fact that reciprocity in social relationships requires some social interaction of both parties limits the number of social relations an individual actor is technically able to maintain since certain resources are absorbed by each reciprocal relation. In contrast to relations based on reciprocity, unidirectional relations are based on social ties in which one actor is well aware of another actor and interaction might sporadically occur but the second actor is much less significant to the first actor than the other way round, and might not even be fully aware of the existence of the tie. Technically speaking a unidirectional tie in a social network occurs if one actor is named to be a contact of another actor but not vice versa. An actor can infinitely receive such unidirectional ties, but the maintenance of reciprocal relations that require some interaction is limited. Introducing reciprocity to a network therefore prohibits the occurrence of very few very well connected super-hubs such as in scale-free networks based on preferential attachment. Comparing the

structure of networks depending on the role that reciprocity plays in social interaction, experimental research has found that social interaction based on reciprocity leads to a social structure in which social ties are more likely to be evenly distributed and the connectedness of actors is more likely to be normally distributed. In terms of social network analysis, reciprocity impacts ego-network-betweenness which describes the degree to which actors in a network are connected through a central node.

Figure 3.6: Distribution of Connectedness in Scale-free Networks

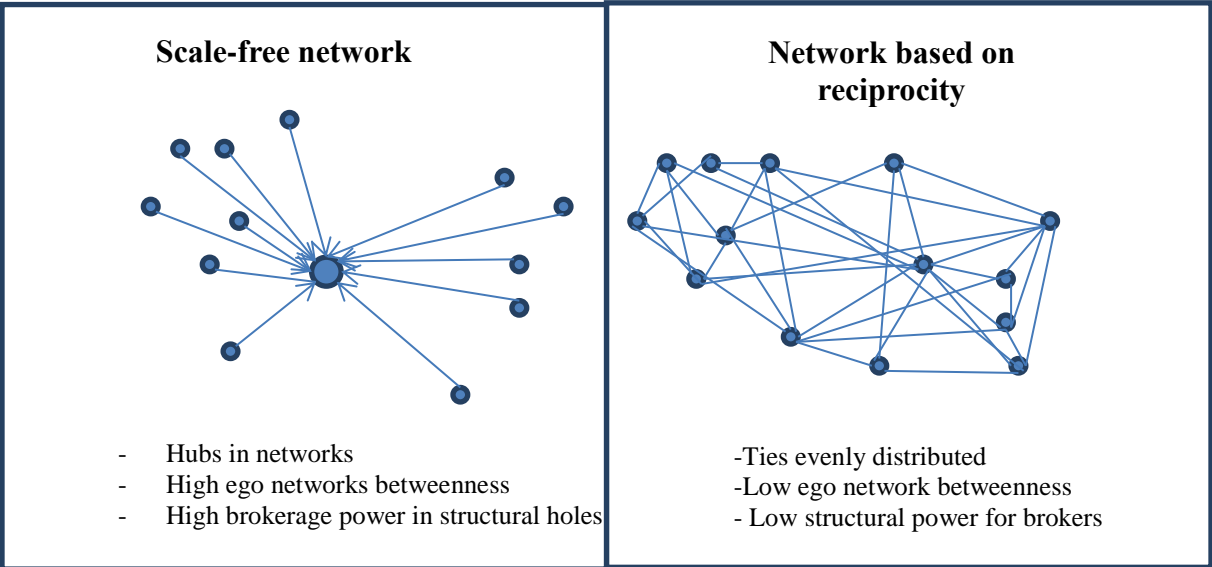


Source: Schnegg (2006)

Two networks with the same degree of density, meaning the number of connected pairs, can vary according to the degree of ego-network-betweenness. While scale-free networks with preferential attachment show high ego-network-betweenness, reciprocity would lead to networks showing a low measure of ego-network-betweenness. In networks with a high degree of ego-network-betweenness dynamics are very much shaped by brokers that bridge

structural holes and hold asymmetric power-positions. Since in networks with a high degree of ego-network-betweenness it is more likely that two actors are linked through a third actor, the role of these actors is becoming central for any explanation of dynamics within such a network. In other words in scale-free networks more actors are connected to other actors through middlemen and find themselves in a triadic relation than it would be the case for actors in a network that is shaped by reciprocal relations (Schnegg, 2006). Both types of networks are illustrated below.

Figure 3.7: Reciprocity and Network Structure

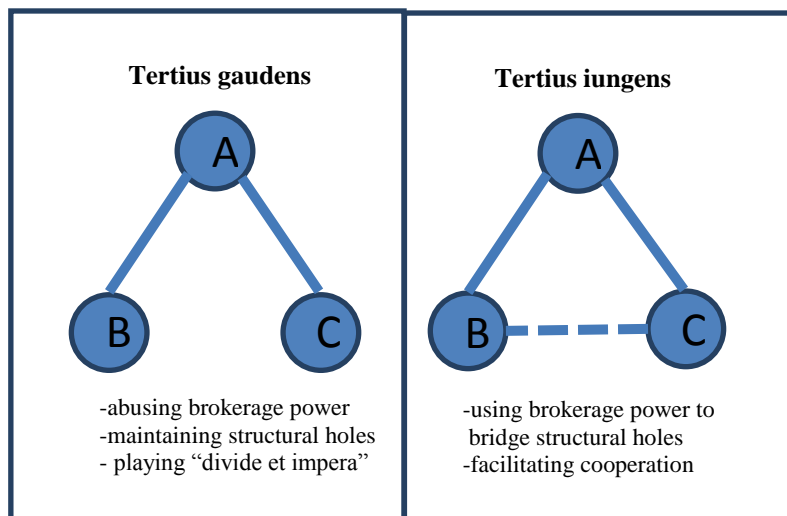


3.9.2 Social Dynamics in Triadic Relations

In order to define the constellations where Wasta can be beneficial and identify under which circumstances Wasta will lead to undesirable results, the dynamics and structures in triadic relations need to be defined clearly and analyzed based on game-theoretic assumptions. What distinguishes a triad as a social constellation from a set of three dyadic relations is the designated roles of each actor. While in a triangle of three dyads in which each actor

maintains a relation with each other actor the ability of one actor to influence the other two actors or their relations with each other through strategies like “divide et impera” and become the “tertius gaudens” is limited if no structural conditions provide an exclusive brokerage position.

Figure 3.8: Brokerage Strategies



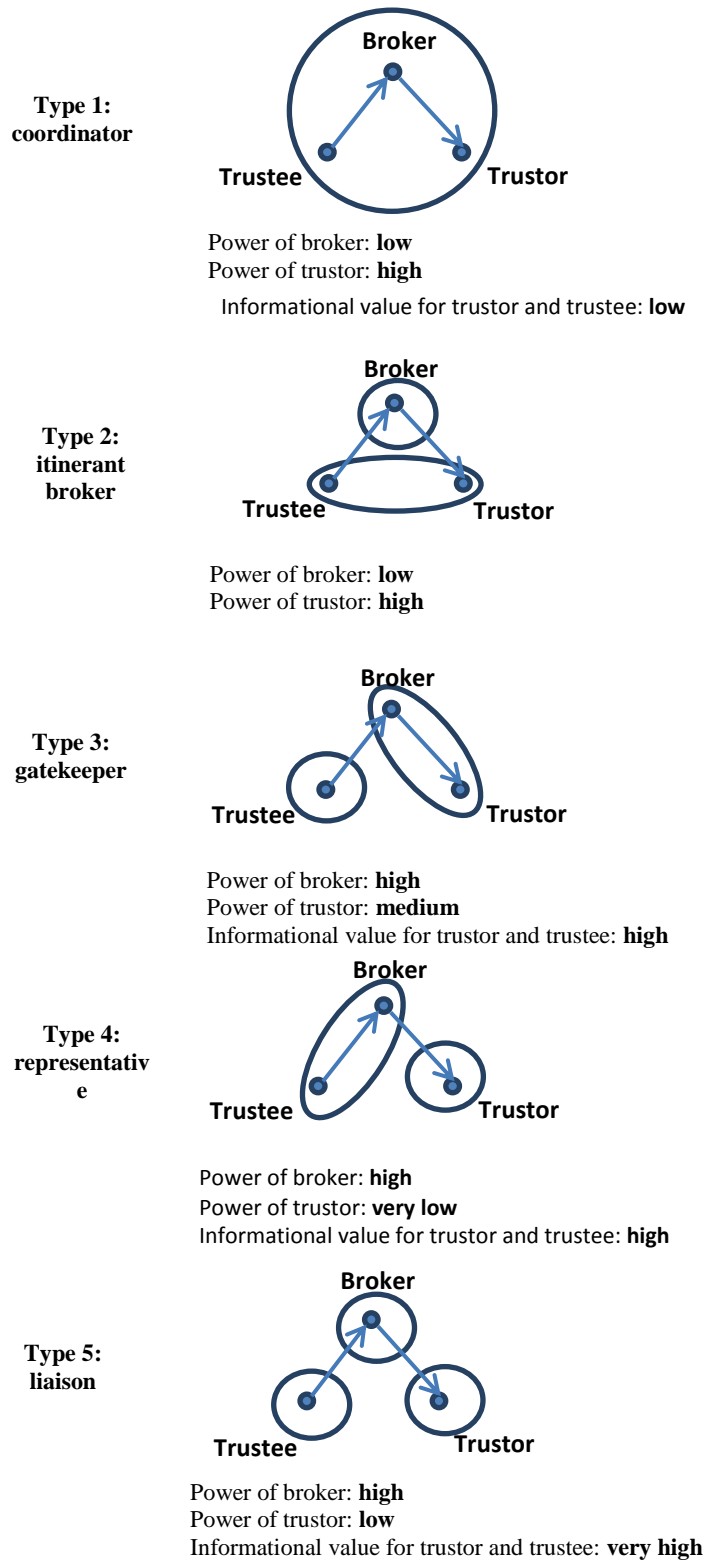
A set of three actors enter a triadic relation if each player fulfils a function within the constellation that implies different expectations and choices. The focus in Wasta will be on triads that consist of a trustee, a trustor and a broker, under the assumption that a structural hole exists between the trustor and the trustee and that both parties are connected through a third party, the broker. Although all parties involved do make themselves vulnerable to the actions of others and become by definition trustees, the distinction between trustor and trustee is made to demonstrate the choice of actions and constellations required during a trust-building process (Gould and Fernandez, 1989).

To identify the potential dynamics in a triad and to provide an approach for the prediction of outcomes of such constellations the choices of each actor need to be assessed based on its individual role and structural position. In a setting of informal institutions where personal trust and sanctioning through reputation mechanisms, the threat of the loss of face and the resulting loss of potential exchange partners is often either the only or simply the dominant base of cooperation, entering a constellation of a triad with the expectation of creating trust is essentially linked with the possibility of communicating defection or the disappointing misbehaviour of one party. This possibility is called voice in game theory and is one option that a player has as a sanctioning mechanism. The opportunity of voice depends on an actor's structural embeddedness within the network. An actor not linked to other players, particularly to those that are important or close to the cooperation partner, lacks that option and is disproportionately disadvantaged. The second option for an actor dissatisfied with outcomes of the cooperation is to leave the game, this option is called "exit". The possibility of exiting a game depends on the assets of the actor; if an actor finds itself in a hold-up situation where high asset-specificity, high sunk-costs or the lack of opportunities prevent the actor from terminating the relation the actor loses power compared to the other actors, who might exploit this power asymmetry. Both voice and exit are related to an actor's structural embeddedness. The connectedness of an actor provides channels to voice deviant behaviour as well as connections to alternative cooperation partners in order to exit the game. Both options contribute to an actor's power and are sanctioning mechanisms that protect against defection in social cooperation (Gould and Fernandez, 1989).

3.9 3 Structures of Mediation

In triadic-relations that serve the purpose described above with corresponding roles of trustor, trustee and broker the options of voice and exit have different functions for each role. While the middleman or broker does not directly run the risk of being cheated, a description of strategic options of cooperation and defection in triads will be given below. In a setting of informal institutions, where cooperation between two unfamiliar actors is facilitated through a middleman, the expectation of creating structural embeddedness is to overcome collective action problems in a sphere of anonymity. Structurally a broker is an actor in a network sending and receiving ties of two other actors, (Burt, 2007); since this sociometric definition does not identify certain functions of that actor it is considered insufficient for this purpose. A more suitable definition of brokerage is delivered by Marsden: a process “by which intermediary actors facilitate transactions between other actors lacking access or trust in one another.” (Gould and Fernandez, 1989: 91). In a system where reputational mechanisms are the dominant sanctioning form due to an absence of formalised alternatives, the ability of a broker to communicate the results of cooperation and spread information within the social environment in which a loss of face would be a severe threat for the trustee significantly contributes to the trustor’s confidence in triadic governance. Assessing the voice and exit options of actors from a sociometric perspective, an actor’s structural embeddedness is significant since the degree of connectedness provides a measure for alternative cooperation-partners and the communication channels available. Where brokers are required to bridge structural holes between non-overlapping groups, where trust is limited to in-group members and cooperation between groups faces distrust due to a lack of social bridging capital, a more differentiated view is required and five structural scenarios need to be considered and evaluated.

Figure 3.9: Structures of Mediation



Source: Gould and Fernandez (1989)

In the five models of brokerage-structure group identity of broker, trustor and trustee is anticipated. The coordinator is a broker who is structurally a member of the same group as trustor and trustee, the iterant broker is a member of a different group than the two actors connected by the broker. A gatekeeper grants access to member to his own group while a representative controls access to actors of other groups for his own group members. In the liaison-broker structure all actors are part of a different group. As described in chapter three a fundamental principle of informal institutions and face to face monitoring are clear groupboundaries and a limited groupsize to avoid anonymity and a resulting collapse of monitoring systems. Given that strong bonding social capital implies a lack of bridging social capital, the role of a broker can become a crucial factor of triadic governance for intergroup cooperation. In a scenario of mutual subgroups the group structure in which the broker is embedded enables the broker to fulfil the function of facilitating cooperation by providing normative pressure of voice. In collectivistic systems shaped by a high degree of personalism where in-group status is a condition for personal trust and clear and stable group boundaries are essential, the structural embeddedness of a broker in both systems is technically difficult. Although group structures, in-group status and rigidity of group boundaries vary across cultures, an ideal case is used here to demonstrate the brokerage role in personalistic systems. Since the voice option of a broker is limited in such a setting a broker needs to become a mediator whom both trustor and trustee trust and also becomes a trustee in this function. The role of a mediator in a triad to build trust would go beyond the role of a broker that through structural embeddedness provides channels for voice to avoid anonymity. A mediator would be expected to intervene in the event of a conflict and provide normative pressure on the defecting party. The precise role of the mediator cannot be conceptualized in detail since it depends on the idiosyncratic rules, codes of ethics and rituals of a society. Mediators can be hired professionally or just serve as mediators for honour's sake, the mediation process can be

a standardised procedure or intervention by convincing one party to comply with the rules, in any case in a triad the mediator is expected to facilitate cooperation and help to enforce agreements. Where one actor seeks trust of another actor and both actors are connected through a broker, the question arises under which of the above presented brokerage-models in system of personal and particularised trust could the required trust for cooperation be best established. Assuming that in a collectivistic system in-group status implies some trust, the following scenarios are to be considered. Based on the just mentioned assumption of in-group trust and the focus of this study, bridging social capital, the first two categories, coordinator and itinerant broker, do not play a role since both trustor and trustee are members of the same group and a base of trust is assumed to exist between them. This premise will not hold true in every case and these two brokerage categories are certainly significant in some situations, particularly in some Wasta constellations. They are beyond the focus of this study but are taken into account in the section further below.

The remaining three constellations, gatekeeper, representative and liaison, can only be assessed with simplification and without further differentiation. The liaison setting in which all actors in the triad belong to different groups might serve as a dispute-settling mechanism under certain circumstances but proves to be complicated and potentially instable since a trust-base needs to be established for two ties, between trustee and mediator as well as between trustor and mediator. If trust between two parties and the mediator exists a priori the mediator might introduce the other two parties but considering the premise of group loyalty this constellation is threatened by instability. Since the role of the mediator in a case of defection would be to put some pressure on the defector the trustor needs to be sure that the mediator would prove loyal to the trustor. In the representative scenario, the trustor cannot be

sure if this loyalty exists since both trustee and mediator are bound together through common group identity.

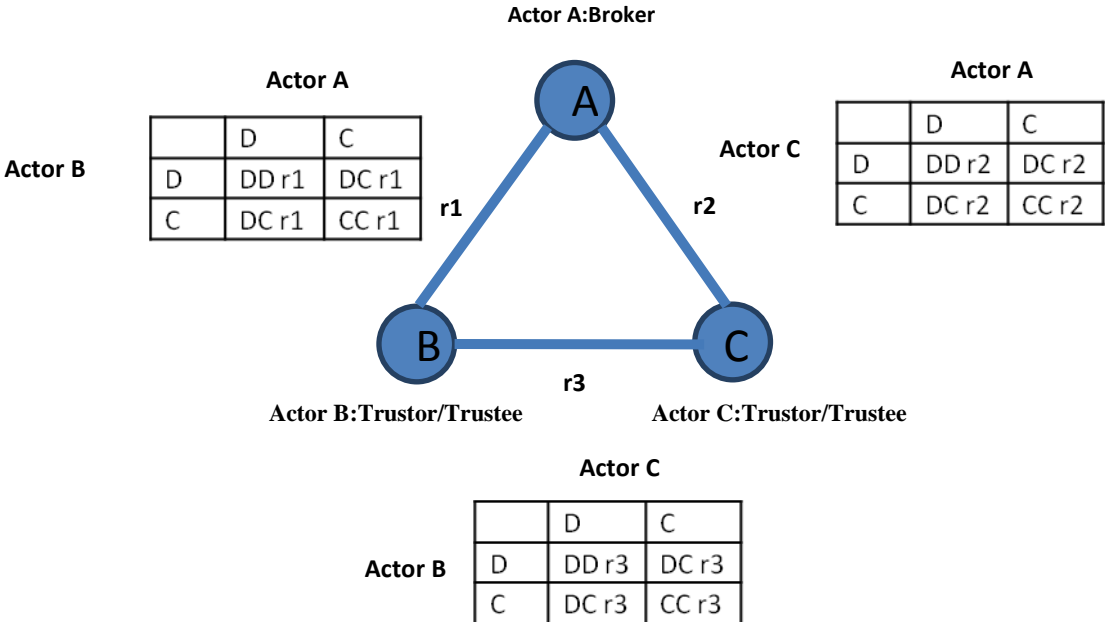
The constellation in which the most vulnerable actor, the trustor, is linked to the enforcing party through a bond of trust based on in-group status, the gatekeeper, appears to be the most secure structure for the trustor. If the trustee appears to either abuse trust or simply not be capable of fulfilling the agreement, in this constellation the trustor has the best chances to expect loyalty from the mediator to intervene on his behalf. As mentioned above this model is based on unidirectional ties in triads and assumes clear roles of each actor and a clear situation in which one party seeks trust from another party. Furthermore, the premise of clear and strict group boundaries will not hold true in most cases, particularly in Wasta-environments, as will be discussed further below. Apart from the limitations of this model, by introducing further aspects, it provides an essential framework for an approach to assess the concept of Wasta more formally, which has remained rather unstructured up to date.

3.9.4 Cooperation and Brokerage Power in Triads

While the above presented models of brokerage focus on the structural embeddedness of the middleman and the arising implications arising for the trustor, it ignores a central issue that is inherent in all triadic relations and their stability, coalition-building. While choices of actors in a dyadic relation to either cooperate or to defect are reflected in a prisoner's dilemma and are limited to four possible outcomes, adding a third player increases complexity exponentially. As mentioned above a triad requires more than simply the occurrence of three connected dyadic relations, the designated roles of three actors that are connected through a broker constitute a triadic relation. In this setting each player has the choice of dealing with two players, since the actors are bound together by the purpose for which they have entered the triad, each decision impacts the entire constellation. While in a dyadic relation the strategy

one actor chooses to play does not impact a relation that the second actor maintains with third party, this is not the case within a triad, given that choice refers to the common purpose for which the triad has been set up. In this sense each actor is vulnerable to the actions of two other actors and the set of choices increases from one prisoner`s dilemma with four possible outcomes to three prisoners` dilemmas, with 12 options that add up to 64 scenarios affecting the triad, since all options of cooperation and defection are effectively interrelated.

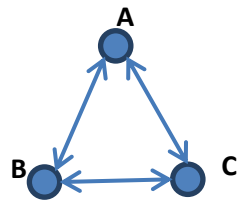
Figure 3.10: Strategy-Choices in Triadic Cooperation



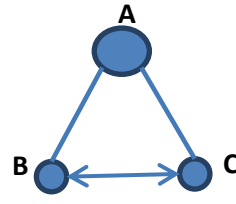
Since the purpose of triadic relationships is to build trust and enable cooperation through structural embeddedness based on a broker, as defined above, the meaning of defection varies according to which relation between which actors it is applied to. The most fundamental opportunity for defection is for the trustee to abuse the trust of the trustor and choose not to cooperate. The aim of a triad is to avoid this situation in which two parties face a fairly simple choice. Depending on the power of the mediator and the utility function of the trustee,

threatening sanctions and gains from defection need to be outweighed. The impact of individual utility functions of each player is discussed in detail further below. Apart from the possibility of the trustee abusing the vulnerability of the trustor, the main threat for stability in a triad is the formation of coalitions between two actors to dominate the third actor (Caplow, 1959). The choice of two actors to do so in order to maximise their own gains is based on a complicated set of choices and factors. Since the coalition between two players in the triad against the third one means cooperation on one dyadic relationship that imposes defection in the remaining relations. Assuming that each actor would enter a coalition and act opportunistically if the gains are high enough, the individual power of each player becomes a crucial factor. Based on this, eight constellations of power-games in a triad become possible.

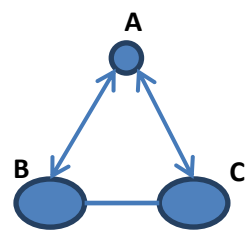
Figure 3.11: Coalitions in Triads



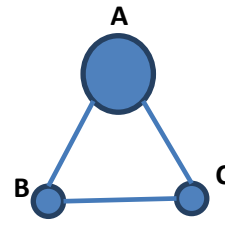
Type 1:
 $A=B=C$



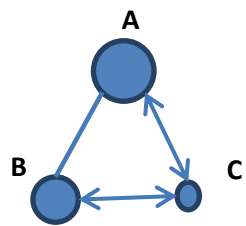
Type 2:
 $A > B$
 $B = C$
 $A < (B+C)$



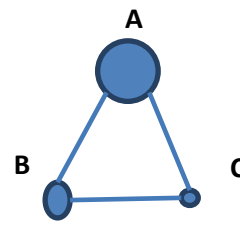
Type 3:
 $A < B$
 $B = C$



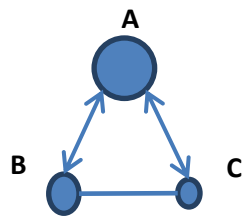
Type 4:
 $A > (B+C)$
 $B = C$



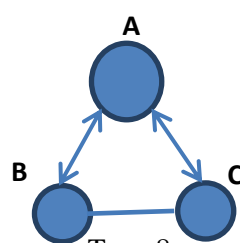
Type 5:
 $A > B > C$
 $A < (B+C)$



Type 6:
 $A > B > C$
 $A > (B+C)$



Type 7:
 $A > B > C$
 $A = (B+C)$



Type 8:
 $A = (B+C)$
 $B = C$

Source: Caplow (1959)

Although in this general model coalition between all actors is possible, it is important to note that in the brokerage constellation, a coalition between trustor and trustee against the mediator is not considered a rational action. The situation would be one in which the broker is abusing its position and playing the “divide et impera” strategy, becoming the “tertius gaudens” and jointly dominating the trustor with the trustee. A coalition between both can be expected if both combined are more powerful than the trustor. To guarantee successful cooperation within the triad a balance of power among all actors needs to be considered. Taking different time-orientations into account, among all possible constellations the most stable triads would be those where no coalitions are likely to arise. Table 3.2 shows which coalitions are expected to occur depending on the distribution of power between actors in a triad (Caplow, 1959; Stryke and Psathas, 1960).

Table 3.2: Power and Coalitions in Triads

Type	Power Structure	Continuous Interaction	Episodic Interaction	Terminal Interaction
1	$A=B=C$	any	Any	Any
2	$A>B, B=C, A<(B+C)$	BC	Any	BC
3	$A<B, B=C$	AB or AC	Any	BC
4	$A>(B+C), B=C$	none	None	None
5	$A>B>C, A<(B+C)$	BC or AC	Any	None
6	$A>B>C, A>(B+C)$	none	None	None
7	$A>B>C, A=(B+C)$	AB or AC	AB or AC	BC
8	$A=(B+C), B=C$	AB or AC	AB or AC	BC

Source: Caplow (1959)

In order to assess what makes an actor powerful and what are the factors of the individual power function are, consideration is needed of the role; different factors contribute to an actor’s power in a triad. Since the entire enterprise of forming a triad is based on the necessity

of bridging a structural hole by a broker, and it is also the broker position that has the greatest influence on the outcome of a triadic cooperation, it is this role that must be at the centre of attention. A broker usually becomes a broker due to an exclusive structural position, by being connected to two actors that to this point have had no direct relationship. It is the exclusivity of that position that significantly contributes to the power of the broker, since all resources flowing between the other parties can be controlled by the broker in such a constellation. The broker can decide to serve as a “*tertius iungens*” who facilitates cooperation and helps to close the structural hole, if that is desired by the other actors, or the broker can choose the “*tertius gaudens*” strategy and keep that structural hole open and avoid transitivity to maintain exclusivity and power. Alternatively the broker chooses to form an alliance with one actor to dominate and exploit the third party and accept that the exclusive broker position might be lost since the exploited actor might cut the tie to the broker.

Whichever strategy the broker chooses, it can do so due to the structural position. No actor but a broker has these options; in fact these options are what technically defines a broker. Apart from the choice of strategies that a brokerage position implies, the lack of connectedness between the remaining actors protects the broker from potential punishment through reputational mechanisms, considering the importance of reputation in systems of informal institutions. The more ties a broker holds to other actors not connected with each other, the more powerful an actor is considered in a network. The measure of ego-network-betweenness measures this factor and a node with a high ego-network-betweenness is centrally embedded in a star-like network. Although this approach assesses the number of ties that are connected through that node and gives an impression of how many pairs of actors could potentially be connected and how many triads could be formed, it fails to reliably capture the exclusivity of that brokerage position, since it ignores the possibility of alternative paths

through which a pair of actors could be connected. Practically it is almost impossible to realistically measure an actor's brokerage value since all alternative paths in all groups in which contacts are embedded need to be analysed to eventually identify an alternative hub. For a quantification of brokerage value in a network, the group boundaries of a collective in which brokerage is expected need to be defined clearly ex-ante (Gould and Fernandez, 1989; Burt, 2007).

While a broker's power, irrespective of intentions, is based on the exclusivity of the structural positions, the opposite is true for trustor and trustee. Since the power of trustor and trustee in a triad is to a degree relative to the power of the broker, a high level of brokerage of the middleman reduces the relative power of the other two actors. While a broker benefits from a network structure shaped by structural holes and unconnected actors, a trustor becomes powerful if the options of voice and exit are available, which is the case in a cohesive and dense network that provides communication channels and a large number of alternative cooperation partners. A trustor who shows a high degree of ego-network-betweenness lacks a sufficient tool for spreading information about misbehaviour in the event of defection. Trustor or trustee who lack sufficient alternatives to the existing triad due to a lack of structural embeddedness have no other choice than to make themselves vulnerable to the actions of the broker and so contribute to its relative power within the triad. Besides structural power through various degrees of embeddedness, the time orientation of actors is a significant factor in the power function. Assuming that defective behaviour results in the termination of a relationship, an actor with a time orientation so short that actions of the other party after a defection do not need to be considered, is relatively more powerful than an actor with a long time orientation who intends to repeat interaction and therefore requires to maintain a good relationship for future purposes (Aoki, 2001). A detailed definition of all factors of a power

function in triads cannot be given since they vary across social settings and need to be identified individually. For example, a factor of triadic governance in settings of informal institutions is the expectation that the middleman is able to influence both parties to agree on a compromise or to comply with agreements. The power to do so cannot be explained by sociometric factors like embeddedness or network structures alone, it requires status within that particular society, charisma and the intention to act according to a certain ethos that is idiosyncratic to that social setting.

While the power function assumes that each actor has equal interests to stay in the triad before choosing the exit option, or the same interest to maintain a good relation with the other actors, an individual utility function of each actor needs to be considered in order to understand the dynamics in triadic relations. A utility function explains the interests at stake for each player that prevents or motivates the choice to defect or to cooperate. Since a defection would spoil the existing relationship and prevent cooperation in the future, the relation itself needs to be valuable enough for the defection option and resulting profit from short-term gains not to be chosen. This is particularly important for the broker, since it is the position in which it is most tempted to abuse structural power (Burt, 2007). In addition to the mere ability to bridge a structural hole and to facilitate cooperation, the broker needs to have an interest to do so. By forming a coalition with one actor or defecting in one relation the broker outweighs the loss that occurs from action. Based on the definition provided above, it is the aim of a mediated triad to enable cooperation between trustor and trustee. Given that the structural embeddedness of trustor and trustee and the power of the mediator is the only protection against defection in a relation in which otherwise non-cooperation would be the dominant strategy for the trustee, the utility function of a trustee needs to be that maintaining the relation with the mediator is appreciated more highly than the gains of defection against the

trustor. The utility function of the broker needs to be structured so that both relations in the triad are equally important so no incentive exists to abuse power. It is important at this point to state that the presented concepts of the individual power of actors leading to the formation of coalitions and the types of mediation anticipating group boundaries are interrelated. The structural embeddedness of actors from the same group determines brokerage power and so the individual power function of an actor.

3.10 Informal Institutions, Cronyism, Nepotism and Corruption

The previous sections in this chapter have applied a descriptive perspective and approached informal institutions as one potential facilitator of collective action, and analysed the mechanisms and structures inherent to informal institutions, the discussion will now critically review the ethically ambivalent aspects as well as advantages of informal institutions. An introduction to the discourse dealing with the role of informal institutions will be provided. “Crony capitalism is a system where stocks are purchased and loans are made on the basis of association not economic value.” Greenspan in Kang (2003)

There are numerous networking systems, which are based on intentionally creating dependencies through the obligations that arise through reciprocity or mediation. Blat in Russia, giri and gimou in Japan, Guanxi in Chinese societies, and the system of Wasta in the Arab world are all to certain degree utilitarian exchange mechanism incorporating mediation or reciprocity (Michailova and Worm, 2003; Weir and Hutchings, 2005; Hutchings and Weir, 2006; Al-Rahami, 2008). These systems nevertheless vary hugely in their function as wealth creating mechanisms or rent-seeking institutions (Loewe, 2007). Bonds created through social exchange, which are abused to increase the individual benefit on the expense of the public good, are considered the dark side of trust and are strongly associated with corruption. Nevertheless the definition by Greenspan quoted above (Kang, 2003) is very narrow and

neglects the positive role of informal institutions. As discussed above, some economic systems rely on personalism and the binding forces of embeddedness as the only available governance functions without which personalistic cooperation would collapse. The striking difference, where this research will draw the line between corruption and the wealth creating mechanism of social embeddedness, is the agency dimension. The above quoted perception holds true in a principal-agent framework, where an agent acts other than in the best interest of a principal due to established bonds between the agent and a third party. Such a constellation where embeddedness prevents efficient and fair decision making can clearly be termed corruption. A more differentiated analysis is required if embeddedness is the trust base for cooperation between a principal and another principal in the absence of an effective third party enforcement mechanism. Under circumstances in which both parties act on their own behalf and where their cooperation contributes to the public good, embedded relationships can be considered positive or even crucial to economic development.

Besides the cronyism dimension, informal institutions based on reciprocity, mediation and its institutionalised rituals of networking, exchanging gifts and favours can serve as mechanisms to establish trust in spheres in which social interaction is not protected through governance systems of personal monitoring of cohesive networks. It is building bridging social capital and has a governance function by creating embeddedness with strangers in a system in which personal trust is a crucial condition for cooperation. (A detailed description of Wasta was given in chapter two.)

3.11 Institutional Formalisation and Crowding-out Effect

The formality of institutions as coordination mechanisms in dilemma situations is a basic condition for the emergence of large scale organisations, specialisation and division of labour (Noteboom, 2006). As demonstrated above, the personal character of informal institutions and

its elaborate interaction processes pose a limit to the size of groups, which face the threat of collapse in the event of overexpansion. The competitive advantage of formal institutions is their universal character. The rules of the game are set up ex ante and information about their structure is available to everyone so that decisions based on formal institutions are predictable and can be anticipated by each actor before entering the game (Knack and Keefer, 1997; Sobel, 2002). The universality implies a high degree of anonymity and the predictability requires rigidity of decisions to be enforced. The perceived anonymity and the resulting lack of identification with the organisation can lead to low loyalty towards the group and inferior rates of cooperation. What is called “the crowding-out effect” observes increasing opportunism and decreasing willingness of individuals to contribute to the public good, if rules are formalised, exchange is monetarised and through that intrinsic motivations to cooperate vanish. Incentive policies that were initially designed to motivate individuals to contribute to a public good unexpectedly show the reverse effect of falling participation and higher rates of free-riding. Where goods were previously supplied as a donation by citizens and then the provider suddenly got compensated in monetary terms, the extrinsic motivation failed and contribution rates collapsed (Titmuss and Oakley, 1997). The premise for the design of formal and universal regulations overemphasises the selfishness of the homo economicus and ignores altruism as a motivation for human action. As interaction becomes formalised and anonymous the predicted egoism of rational and selfish homo economicus becomes a self-fulfilling prophecy. The formalisation of sanctioning institutions, monetarisation and therefore anonymisation of transactions, results in behaviour which is called the framing effect in experimental research. In the presence of rules and strong sanctioning mechanisms participants start to perceive the game as a business situation in which individual profits are to be maximised. In games lacking such extrinsic incentives, game situations are considered as one in which people seek to cooperate. Despite their

expected coordinating function institutions can have the perverse effect of stimulating selfishness and opportunistic behaviour. Experiments have demonstrated that trust in other actors eroded where participants had to repeat games without formal sanctions after getting used to sanctions in previous rounds. In the control-group which had to interact without sanctions from the outset trust did not vanish in the later rounds. In this study participants' willingness to trust others and cooperate was undermined by the type of institutions and sanctioning mechanisms. This crowding out of benevolent behaviour through institutions is referred to as the dark side of sanctions (Biel, 2008). In business situations personal or relational governance and formal contracts are considered substitutes. If mutual trust exists, no specific contracts are required; if perfect contracts cover every aspect of interaction no trust is necessary. But the formality of agreements is considered to have an impact on the perceived trustworthiness of transaction partners. According to Goshal and Moran (1996) the application of formal contracts signals distrust towards the other party:

The use of rational control signals that they are neither trusted nor trustworthy to behave appropriately without such controls... The situation when the use of surveillance, monitoring and authority led to management's distrusts of employees and perceptions of an increased need for more surveillance and control. (Goshal and Moran, 1996: 24)

Macauley noted that contracts are not only not required in many instances but their application may even have undesirable outcomes. "Detailed negotiated contracts can get in the way of creating good exchange relationships between business units." (Macauley, 1963: 39) According to Macauley some companies deliberately avoid the use of contracts because it "indicates a lack of trust and blunts the demands of friendship, turning a cooperative venture into an antagonistic horsetrade." (Macauley, 1963: 39) Apart from formal institutions money is a crucial element of exchange processes by which interaction in modern societies is shaped.

Just like formal institutions money is an instrument characterized by universality and anonymity which allows transactions with infinite number of actors without the coordination costs which make barter an inefficient process compared to monetarised exchange. Similar to the crowding out effect of the formalisation of contracts, transactions based on money differ structurally from direct exchange of goods and impact the behaviour of individuals. Economists' presumption of neutral money, which considers money simply an exchange mechanism which expresses values and has no impact on the exchange process itself, has been thrown into doubt by Georg Simmel (2009). In the "philosophy of money" Simmel argues that money is becoming an end in itself and that it changes the perception of the goods exchanged so that it impacts on the transaction, which it is only supposed to facilitate. Simmel claims that money not only is relation, in the sense that it makes exchange goods comparable and reduces informational complexity, but that "money has relation". With this internal relation of money Simmel argues that the exchange mechanism is becoming an end in itself instead of merely reflecting the value of a good. *Versachlichung* or objectification is a central issue of the process of monetarisation and modernity. Objectification describes the change of the nature of relations between individuals, caused by monetarisation, towards a materialistic, opportunistic and profit-seeking character of human interaction. Demonstrating the effect of institutions and exchange mechanisms on social interaction shows that different institutional frameworks trigger different types of cooperation. It is not simply the question of more or less cooperation facilitated through the quality of institutions but also a structural difference of the type of cooperation which each system of coordination mechanisms allows to emerge. (Simmel, 2009)

3.12 Conclusion

This chapter has connected informal institutions to insights from sociology, cultural psychology and experimental research and identified the ambiguities of this social coordination mechanism. The internal structure of informal institutions, which require elaborate face to face interaction between actors, limits the number of possible interaction partners to be integrated into a group and so imposes opportunity costs on actors. The danger of informal relations developing into harmful structures of nepotism, cronyism and corruption has been discussed. Despite the scepticism of neoclassical economics, informal institutions are vital for collective action in some environments, particularly in collectivist societies where the formalisation of structures might lead to perverse effects and crowd out existing bases for cooperation. In this chapter the negative and limiting effects of informal institutions as well as their superiority under certain conditions have been analysed and discussed to provide a differentiated picture of informality. An understanding of the requirement for informal institutions is essential to prevent crowding out effects through institutional reforms. Furthermore this chapter has introduced the concepts of trust and social capital and reviewed the abundant literature dealing with these two categories and identified definitions to be applied by this research.

Chapter 4 Institutions and Organisational Behaviour

This chapter discusses the implications of cooperation based on informal institutions for organisational behaviour. The previous chapters have discussed and explained the structures of informal institutions. The high degree of personalism and the required type of communication and social embeddedness has an impact on organisational structures in environments of informal institutions. This chapter will connect the insights of previous chapters with theories of organisational behaviour and identify implications of this research. The aim of this chapter is to put this investigation into a management-context and demonstrate why an understanding of the institutions of an economy is essential for research on organisations and management. By identifying a framework for the analysis of institutions in Jordan and their impact on organisational behaviour, this research contributes to the development of an Arab Management paradigm.

4.1 Multiple Institutional Settings in Economic Systems and National Culture

The dominant institutional type of an economic system is often explained by the prevalent type of trust and in many cases is equated with national culture. Suggesting that a collectivist culture and personal trust supports the emergence and preference of long term commitment structures instead of arm's length market transactions, this perception treats institutions synonymous with a system covering the entire economy of a nation, while ignoring the division between formal and informal within countries and the role of informal institutions for the economic development of those segments of the society not participating in formalised transactions (Hofstede, 2001). It is one of the characteristics of developing countries that often two parallel institutional regimes are simultaneously in operation. While legally a formal regulatory framework exists and should provide the base for large scale cooperation, specialisation and division of labour, in reality in many developing countries only a small

minority enjoys access to the benefits these mechanisms provide. Structural barriers prevent the poorest of the society to be integrated into a modern economy and remain marginalised due to failure of the structure of economic institutions. Despite even owning considerable assets in some cases, the lacking legal status of property denies parts of the society the productive utilization of these assets as collateral for loans for instance (Yunus and Weber, 2010). Housing in traditional settlements recognised only by communal norms or booming uncontrolled urbanisation have often proved to be incompatible with formal property rights leaving the fortunes of entire communities unprotected by the law and their property legally unrecognised. Since trading of formally not recognised property is very insecure because claims based on legally nonexistent goods cannot be enforced by a judicial system, exchange has to be based on informal institutions (De Soto, 2000).

Economic activity can basically be summarised as the combination of resources of productive factors in an economy such as capital, land and labour. The absence of mechanisms to connect these factors in an efficient way is a major obstacle to progress in the third world. As De Soto claimed, assets owned by the poor are plentiful and sufficient for self sustained development but their full potential cannot be drawn on due to their lacking legal recognition. The potential that these assets could unfold and the question why this is not taking place is what De Soto has termed the “mystery of capital” (De Soto, 2000). The hurdles that formal institutions impose on the way to legality are too high for the poorest, least educated in a society to pass and mark a threshold of efficiency for business, crowding out micro-enterprises which cannot afford the costly path to legality. Providing institutions to unlock the entrepreneurial power of the marginalised and the potential power of assets otherwise lying idle is considered the key to development and growth in the third world. Providing the poor access to the capital market through microfinance has drawn attention of policymakers concerned with poverty

eradication in the developing world. Since microfinance is by definition dealing with markets not covered by the institutions of legality, it is successfully anticipating informal institutions to guarantee repayment of granted loans. Though varying across countries, personal monitoring systems play a crucial role in microfinance systems. The threat of being stigmatised as a free-rider in a village community is many instances a more efficient sanctioning mechanism than the legal punishment one has to fear in the event of a credit default. In this case informal institutions potentially provide a path to prosperity and poverty reduction through the coordinating function that formal institutions in the respective countries have miserably failed to deliver.

Such two-tier economic systems require more differentiated analyses of indigenous social organisation, particularly from the perspective of development economics. Ignoring the legally unrecognised part of an economy and its indigenous mode of operation in some cases means ignoring the sector in which up to 80% of a country's value is created (Prahalad, 2010). This enormous market segment has been termed "the bottom of the pyramid" by Prahalad who developed management strategies for serving this largely neglected informal sphere of the economy as consumers. Since strategies targeting bottom of the pyramid markets operate in the spheres of informality, they have to apply a logic different from the approaches of the legal economy and anticipate the role of informal institutions (Prahalad, 2010).

Nevertheless, despite the potential of informal institutions for developing countries and the current interest in microfinance, it cannot be ignored that in the same way informal personal governance systems can foster and ignite growth it is their limitation of interaction partners and personal trust bounded to small predetermined group which can pose an obstacle to economic development themselves (Granovetter, 2005). As demonstrated above, it is the

universal character of formal institutions that allows large scale division of labour, specialization and trade which is required for the level of welfare in a modern economy.

4.2 Organisations and Personalism

According to North's theory, formal institutions are a crystallization of informal ones and create the basis from which economic systems evolve (North, 2007). The emergence and creation of commitment structures is a path dependent process and is reflects the institutional structure prevalent in an economy. Varieties of capitalism theory demonstrated the vast range of economic governance types that have developed globally (Hall and Soskice, 2004). Depending on the degree of formality of an economy's institutions different types of governance can emerge. In a system shaped by institutions of a high degree of formality such as a codified law and reliable third-party enforcement mechanisms accessible to all of formal character or bureaucracies become means to reduce transaction costs. Bureaucracies as coordination mechanisms are characterized by hierarchical and impersonal relationships and no necessity to share values and beliefs since property rights are enforced through informal institutions. The market versus hierarchy dimension describes the degree of integration depending on the transaction costs that actors have to deal with. Although transaction costs are not the only rationale for companies to integrate, aiming to achieve monopolistic rents through increased bargaining power is a strategy also requiring the takeover of competitors; companies are integrating supply chains if the risk of market transactions is too high. As already briefly mentioned, this can be the case in a weak regulatory environment or if the complexity of products allows for opportunism through information asymmetries. Although the market versus hierarchies function is considered a continuum taking into account various degrees of integration between market and firm with several types of hybrid in between, it is a one-dimensional perspective in terms of formality. While trust is considered to be based on

either assurance mechanisms or other constructs supposed to prevent opportunistic actions trust and control are interrelated and at times confused, however both concepts are structurally distinct. As Bijlsema and Costa outlined the essential aspects of formal control are not shared by the concept of trust. Formal control requires (1) codification, (2) monitoring and (3) safeguards (Bijlsma-Frankema and Costa, 2005). Not all three criteria are required either for establishing trust or operating on the base of trust. In essence this argument reduces control to a formalised function. The shortcoming of this perspective is neglecting control and enforcement mechanisms based on informality. Informality does not equal trust.

Trust in organisations must be based on settings which allow trust to emerge among participants. As trust in research is conceptualised as “willingness to be vulnerable” to the actions of trustees, organisations need to build credibility and a perception of justice. As Colquitt and Rodell demonstrate in their research, four categories of justice, procedural, distributive, interpersonal and informational are relevant for the concept of trust to emerge in an organisation (Colquitt and Rodell, 2011). Particularly informational justice contributes to the trust factors of benevolence and integrity. Participants perceiving that information is shared allowing trustors to assess trustees are relatively more likely to develop trust. The relation between trust and justice, as well as the concept of justice as such, is beyond the scope of this research.

Leadership in business organisations requires trust in addition to formal hierarchies. As charismatic leadership as a principle next to bureaucratic and patrimonial leadership is of paramount importance in modern business, the bases and dynamics of trust in leadership situations is a significant aspect of trust research. Ballinger, Schoorman and Lehman have demonstrated how trust affects relations between leaders and teams and to capacity to manage organisational units, particularly in situations of transition (Ballinger, Schoorman and Lehman,

2009). Previous relations and history within an organisation do impact the emergence of trust among team members. Although this research outlines the obvious that trust in persons is related to previous interaction, it does not demonstrate the contribution of trust to the success of management in organisations. As this analysis investigates in the basic relation between Wasta and trust at an early stage of research in this field, the leadership aspects are not further considered.

Beyond of the conceptualisation of trust as a mechanism based on personalism enabling interaction between individuals, Sydow analyses how trust emerges and serves as a coordination principle between organisations (Sydow, 2006). Although this aspect is vital for the development of theories regarding trust as a management tool and a type of organisation, this research explicitly focuses on the interpersonal dimension of trust and on the role of trust as a facilitator of interaction in a sphere of informality. The approach of inter organisational trust is not an aspect of this research and will not be discussed further.

Whereas bureaucracies are based on formal and impersonal relationships relying on an institutional framework of high formality, built on informal institutions are shaped to a large degree by face to face interaction or personalism. Since informal institutions are considered self-enforcing due to the lack of an enforcing third party, they require face to face communication and personal relationships. (Boisot and Child, 1996)

Referring to the social capital discussion above, clans have built a strong bonding social capital of strong ties within a dense network which facilitates cooperation in an uncertain environment of high transaction costs. What is weakly developed due to the limit of the group size is bridging social capital. The reduction of transaction costs through commitment relations among actors and by personal monitoring which requires the exclusion of outsiders

creates opportunity costs for the entire group. Since cooperation in such an environment requires personal monitoring, the creation of bridging social capital is a time consuming and elaborate culture-specific process. Building bridging social capital is to create trust in a sphere which is not regulated by other institutions and to achieve the status of a trusted insider worth cooperating with. The function of personal monitoring in cooperation in relation to culture is explained in detail in chapter three. This conception is expanding the market versus hierarchy function to informal which is a third type of governance beyond this dimension. Introducing the formality dimension and its particular modes of coordination into organisational analysis in order to provide an understanding of the significance of indigenous governance mechanisms is an essential aspect of this research. Considering the network-company as a distinct mode of managerial organisation informal institutions are the backbone of this type of organisation. (Borgatti and Foster, 2003)

4.3 The I-Space

Institutions and the type of communication on which cooperation and collective action are based, determine organisational structure growing out of the institutional environment. The I-space categorises institution-specific communication and information according to three dimensions which aim to explain the characteristics of organisations specific to each type of institutions. The dimensions abstraction, codification and diffusion of information describe how each institutional setting is capable of dealing with certain types of information and so favours or prevents the emergence of certain types of organisations. Institutions shaped by communication based on information with a low degree of abstraction and codification require elaborate interaction between individuals which limits the number of actors that can be integrated into a system which in consequence limits the diffusion of information within a group. This type of cooperation represents the highest degree of informality which can be

found in premodern societies or “fiefs” as Boisot calls this type of social organisation (Boisot and Child, 1999). As described above, institutions which require elaborate interaction between actors limits the size of economic organisations. The uncodified and concrete character of communication requiring face to face communication is a barrier for diffusion of information, which limits the ability to sanction defection in large groups extending the size which allows direct and personal communication between all actors. Organisations operating in this sphere of the space of low abstraction and low codification but with a higher degree of diffusion than it is the case with fiefs are called clans. Clans are also based on informal institutions and rely on enforcement mechanisms based on face to face communication. The anonymity which emerges if an organisation of this type grows beyond the size at which structural embeddedness allows monitoring of individual behaviour is a vital threat for the survival of clans. The possibility of defection without sanctioning if a clan becomes too large, can result in a collapse of this organisational type and must be prevented. Organisations located in the lower spheres of the I-space and attempting to diffuse information are threatened by what Boisot calls the “chaotic regime”. (Boisot and Child, 1999)

The upper levels of the I-space are characterised by high degrees of abstraction and codification. Information with a high degree of abstraction reduces complexity in communication and is a condition for codification. Abstracted and codified knowledge can be transmitted to a large number of actors without high costs and does not require elaborate face to face communication between actors. Communication based on this type of information allows the use of formal institutions and organisations with the ability to integrate a large number of actors and grow without facing the threat of the “chaotic regime” due to overexpansion. Bureaucracies are an organisational type growing out of this environment of formality and based on the principles of codification and abstraction. Social interaction in

bureaucracies requires clear and explicit rules which are standardised and can be communicated to each individual without elaborate interaction. Bureaucratic organisation allows collective action among actors based on formalised hierarchies that do not require face to face interaction. In this model, markets are the type of organisations with the highest degree of abstraction, codification and diffusion. Bureaucracies as organisations represent commitment relations among individuals based on formal and hierarchical structures in order to reduce transaction costs. This structure limits the diffusion of information since in a hierarchy interaction partners do not change at each transaction according to economic criteria. While bureaucracies require stable relations, market-relations represent the highest degree of flexibility and no repeated interaction is required. All information is available to all actors and transactions are based on abstract and codified information, such as market prices. In this organisational setting no commitment relations are required to achieve collective action or to enforce agreements. Market transactions are characterised by the highest possible degree of formality. (Boisot and Child, 1999)

As regards their location in the I-space and their categorisation in the three dimensions of abstraction, codification and diffusion, the four types of organisation presented, fiefs, clans, bureaucracies and markets, face different kinds of complexity. Boisot applies the categories of cognitive and relational complexity. Relational complexity describes complexity of interaction in each type of organisation. While markets are characterised by a high degree of relational complexity, bureaucracies and clans have to deal with a relatively lower degree of relational complexity, since the number of actors is either limited or relatively static compared to interaction in markets. The large number of actors and the dynamic structure of markets mark a high degree of relational complexity. Cognitive complexity in contrast represents complexity of the structure of the information that an organisation is confronted with. The

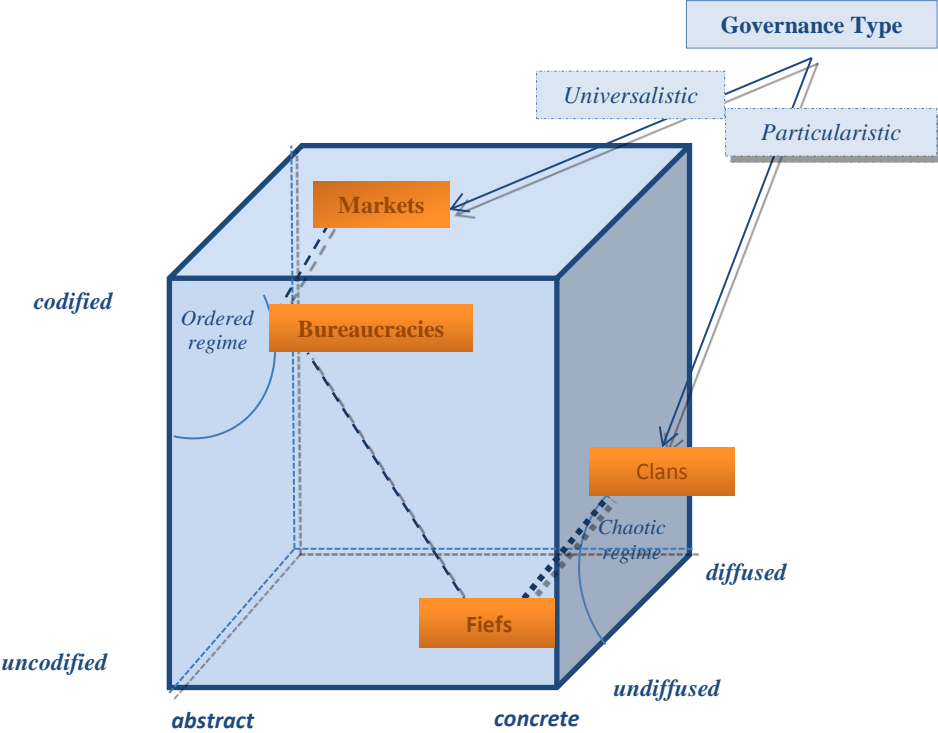
highly codified and abstract character of information in market transactions shows a low degree of cognitive complexity. “Markets, for example, have banished cognitive complexity by codifying everything into abstract sets of prices but have to deal with the relational complexity of large numbers bargaining.” (Boisot and Child, 1999: 243). Compared to markets, clans face low relational complexity due to the repeated interaction based on stable commitment relations but have to deal with high cognitive complexity since information is lacking abstraction and codification (Boisot and Child, 1999).

Referring to the structural characteristics of informal institutions discussed above, organisations in the lower spheres of the I-space are based on informal institutions and by a high degree of social embeddedness, personalism and stronger social ties than organisations located in the upper-spheres of the I-space. Markets and bureaucracies in contrast rely on formal institutions, interactions is consequently based on weaker social ties or arm’s length ties. The relation between the type of tie by which individuals are linked and the capability of processing information has been discussed above. While arm’s length ties favour the flow of abstract and codified information and are relatively better capable of dealing with public knowledge, stronger ties based on a high degree of social embeddedness are comparatively better at processing private knowledge or concrete information which is difficult to codify.

The concept of cognitive complexity is corresponding to the categories of private and public knowledge applied by Uzzi and Lancaster (2003). While public knowledge is based on abstract and codified information of low cognitive complexity which arm’s length ties are able to transmit, private knowledge corresponds to concrete and uncoded information marking a high degree of cognitive complexity.

The I-space demonstrates the degree of formality of institutions which determines organisational structure and which institutional environment favours the emergence of what kind of organisation. The institutional base of economic organisation impacts the capability of dealing with different types of information and degrees of cognitive complexity (Boisot and Child, 1999).

Figure 4.1: The I-Space



Source: Boisot and Child (1999)

4.4 Institutions and Information Processing

The process of learning is acquisition of new knowledge either through individuals or organisations. Since learning occurs through the transmission of information the structure of the channels along which knowledge can flow and be processed as well as the type of information is having an impact on the behaviour of organisations.

The type of tie between individuals determines what kind of knowledge is transmitted. So called arm's lengths ties, ties which are characterized by high degrees of formality and low emotional involvement favour the flow public knowledge. Public knowledge means the type of information with a high degree of abstraction meaning that it is codified and widely distributable among a large number of actors without high costs. This type of information is corresponding to the upper levels of the I-space and is favouring markets and large scale of organisations. Private knowledge in contrast is more concrete and contains more information difficult to codify and is costly to transmit. The distribution of this category of information requires embedded ties between actors (Uzzi and Lancaster, 2003) The dimension of public knowledge which cannot be abstracted requiring elaborate interaction is lost in communication based on arm's length ties. Despite the rational organisation and high degree of codification and abstraction of information in modern economies, public knowledge alone is insufficient in providing actors all the required information on the market. Uzzi and Lancaster have demonstrated in a study of loan-markets, that private knowledge which is transmitted through embedded ties is a crucial factor in doing business.

The dimensions of information not captured by formalised public knowledge can be a competitive advantage to actors on the market (Uzzi and Lancaster, 2003). Whereas in economies that operate in the upper levels of the I-space, which allows large scale organisations basically built on arm's lengths ties, systems in the lower dimensions rely on embedded relations due to the elaborate transmission process restricting the size of organisations. Nevertheless maintaining embedded relations with certain actors can prove to be more flexible since the degree of abstraction of information companies are dealing with is not necessarily static. Particularly in domains of technological innovation and the process of globalisation, which is characterised by the absence of universal standards, firms might be

confronted with information with low a low degree of abstraction which is difficult to process with arm's length ties. The embeddedness created through mechanisms of personalistic governance provide the base for the acquisition of private knowledge and can become pillars of corporate strategy in certain environments. The success of Silicon Valley as an industry cluster partly based on the geographic proximity of knowledge and entrepreneurial power that allowed the exchange of private information by face to face communication and the efficient combination of that knowledge. The proximity and potentially resulting embedded ties is a cornerstone of the theory of industry clusters. The comparison of two high-tech clusters the Route 128 in Boston and the Silicon Valley, which both faced severe setbacks during the 1980's through competition from Japanese companies, showed that the Boston cluster suffered from informational isolation of traditionally integrated firms, while Silicon Valley benefited from the flexibility of informational connectedness of small less integrated units (Aoki, 2001).

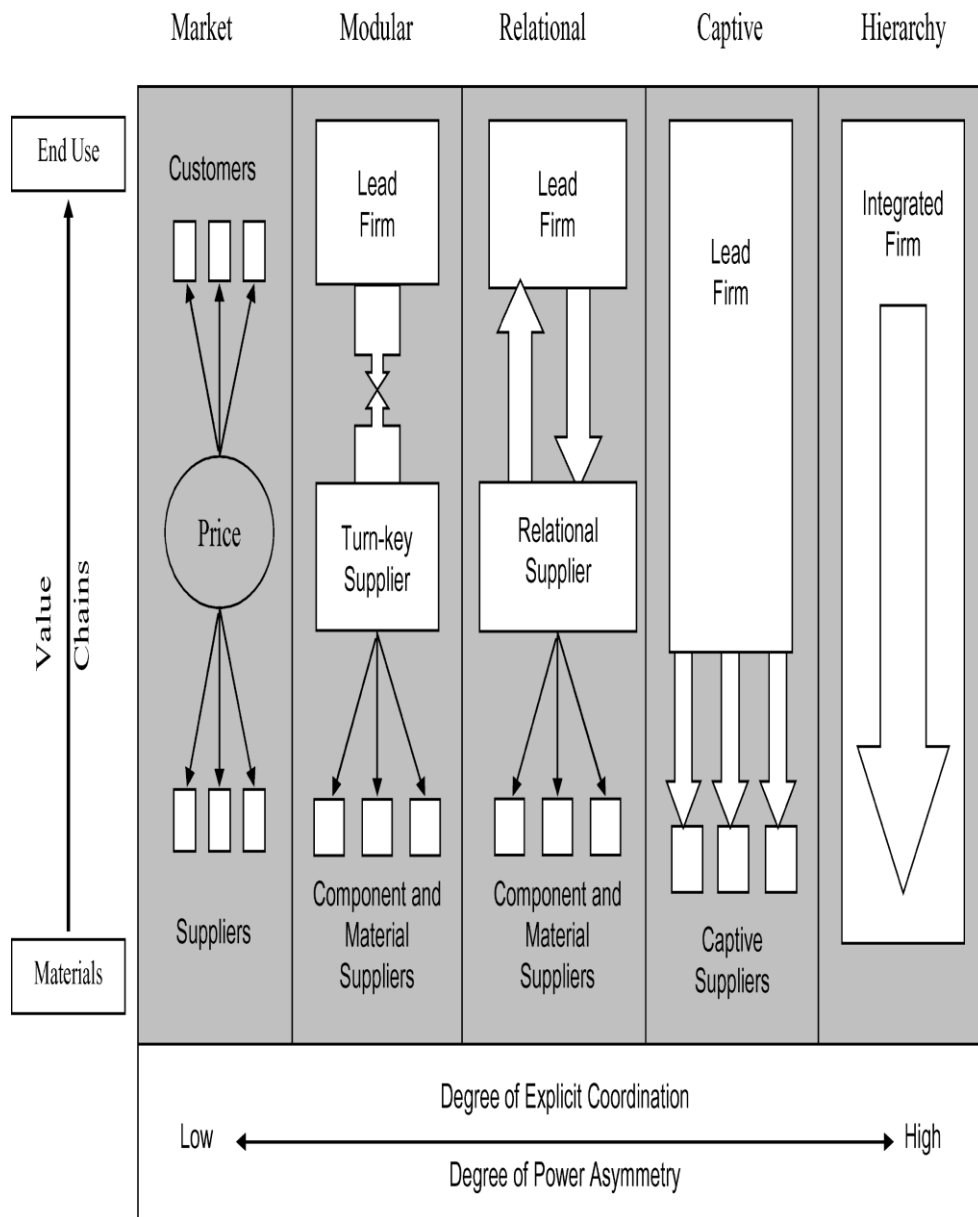
The requirement for network-closure and the limitation of network size in order to avoid anonymity in a governance system based on face to face monitoring can be a vital threat to an organisation in the sense that it is cut off from the sources of novel and diverse information (Granovetter, 1973). While it is vital for the organisation that information within the network, about defection of individual actors, is quickly transmitted the opportunity cost for the efficiency of such a system is that new information might be prevented from entering the organisation. As briefly mentioned above, network cohesion is generally based on strong ties and the information flowing along these ties is generally old and recycled whereas the ties which provide new information from outside the group are weak ties. This referred to as "the strength of weak ties". The establishment of such connections to outsiders of the tight group structure is an aspect of bridging social capital. The bonds established through networking

systems not only provide secure cooperation bases but also vehicles for individual and organisational learning. Tapping into diverse sources of knowledge and combining the acquired information is a vital aspect of the innovation process (Granovetter, 1973).

4.5 Informational Complexity and Supply Chain Governance

From the perspective of institutional economics, transaction costs justify the existence of firms in economic systems. As discussed in chapter three Coase (1937) argues that transaction costs are providing a rationale to integrate activities into formalised hierarchies instead of relying on market based transaction. Although anticipating the necessity to create structures for repeated interaction within bureaucracies, Coase provides a binary view of the market versus hierarchy dimension. In reality several degrees of integration between the ends of the scale are possible. Gereffi has provided a more differentiated approach of governance types for interaction between companies which identifies five degrees of integration: market, modular, relational, captive and hierarchy (Gereffi, Humphrey and Sturgeon, 2005).

Figure 4.2: Governance of Global Value Chain



Source: Gereffi, Humphrey and Sturgeon (2005)

While a hierarchy means a total integration of an interaction into the formal structure of a company, market transactions are based on arm's length ties and interaction partners can

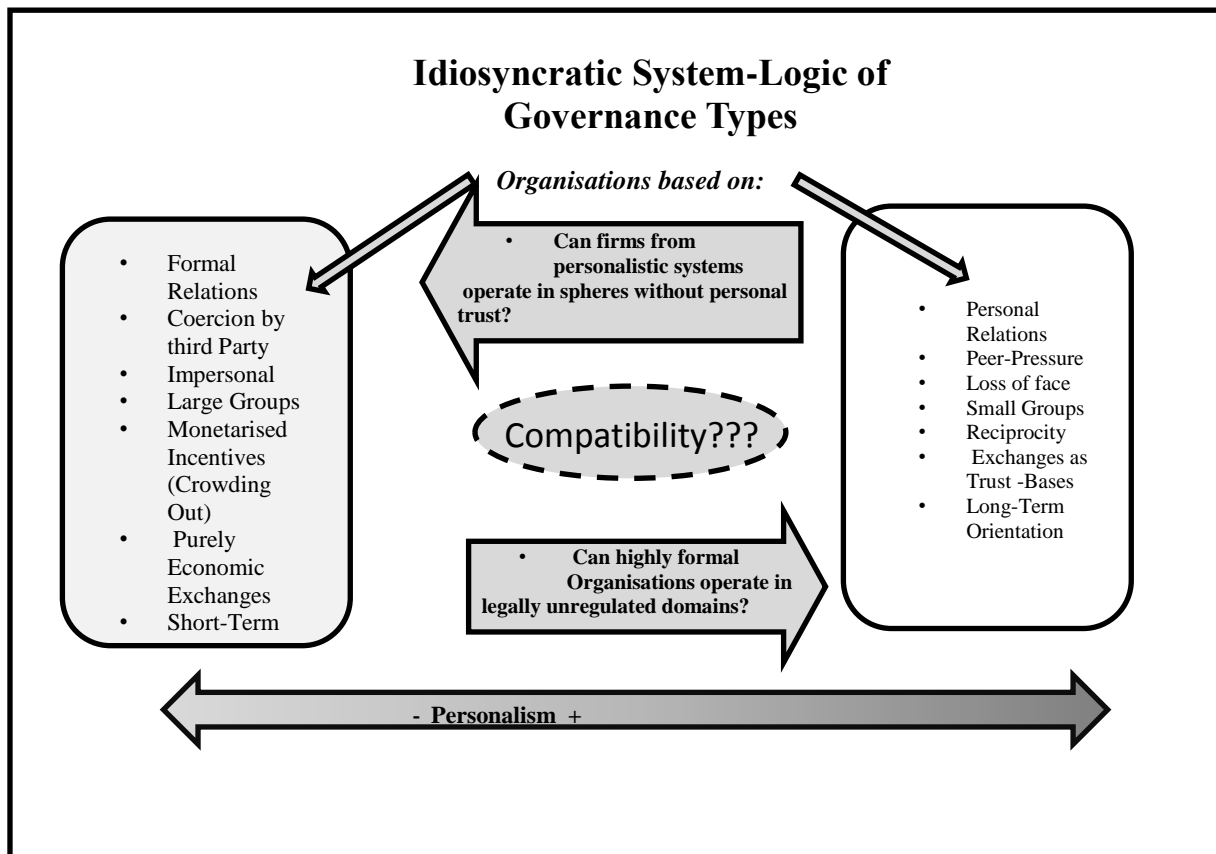
constantly be changed if conditions require it. The intermediary stages of modular, relational and captive relations are neither fully integrated nor following the logic of market transactions. Although in these cases activities are outsourced to other companies, some degree of explicit coordination between firms is required and as a consequence a dependency on both sides emerges so that companies cannot take full advantage of the flexibility of market transactions. High technical complexity that produces information which is difficult to codify requires elaborate interaction to process this type of information. Coordination that is able to handle uncoded information increases transaction costs. The higher the necessity for explicit coordination due to technical complexity, the higher are transaction costs. As soon as transaction costs outweigh opportunity costs, which arise due to the loss of flexibility, it is rational for a company to choose a higher degree of integration (Gereffi, Humphrey and Sturgeon, 2005). Although this model anticipates information that varies according to its degree of codification as factors for corporate structure, it applies a one-dimensional perception of the degree of formality of the institutions available to process information.

4.6 Institutions and Corporate Structure

While Coase and at a later stage Williamson have worked out the rationale for the emergence of firms in relation to transaction costs (Coase, 1937; Williamson, 1993). The scale between markets and hierarchies can be considered a continuum with various stages in between instead of binary choice for the firm between market relations and full blown integration. Depending on the stage of integration the relations between firms differ in their degree of formality. The varieties of capitalism theory mentioned above, refers to indigenous governance structures of economic organisation varying across countries. The industrial networks of keiretsu in Japan or chaebols in Korea are all very distinct idiosyncratic organisational types, which have successfully contributed to their respective countries industrialisation. Despite their important

in role during early stages of industrialisation and development of infant industries, structures of keiretsu and chaebols conglomerates have contributed to the severe economic crisis in East Asian economies in 1997. Problematic issues of informal institutions are discussed in chapter three. Particularly the Japanese system of supplier keiretsu is an example for hybrid between the polar ends on the market versus hierarchy dimension. An important dimension in the analysis of hybrid is the formality of ties. Japanese supplier keiretsu contain to a large degree dimensions of personal trust and embedded ties between business units or managers. Particularly in Japan, it is not totally clear in how far economic organisation will proceed towards market principles that long-term cooperation only can only succeed if the types of institutions for inter-organisational coordination are compatible (Aoki, 2001). Based on a game-theoretic framework, Aoki claims that different time horizons result in a different propensity to cooperate. Whereas the shadow of the future or the threat of losing face in repeated interaction can work as a check on opportunism, the rational strategy for a short-term player is to defect in the last rounds. Aoki argues that cooperation between investors from systems in which market logic and the bottom-line principles are dominant and companies shaped by long-term orientation and personal trust face the risk of asymmetric defection and resulting distrust (Aoki, 2001).

Figure 4.3 Compatibility of Governance Systems



Globalisation, technical complexity and growing demand for flexibility have all challenged the traditional firm. While on the one hand the necessity of reaching sufficient economies of scale demands large scale organisations, the globalisation of supply chains and imperative to quickly react to ever shorter product life-cycles makes the behemoths of the corporate world difficult to manage on the other hand. Reaching the right degree of integration in order to combine sufficient size with flexibility is a crucial success factor in a globalised economy. Particularly companies from developing countries that have to establish themselves from the scratch while competing with experienced firms from advanced countries have successfully applied corporate strategies of networked firms. The network strategies of latecomer companies such as Acer from Taiwan, Mittal from India or Cemex from Mexico, which have been summarised as dragon multinationals, all have in common having loosely integrated

existing companies and maintaining a high degree of autonomy for each subsidiary. A condition for this structure to work is that communication efficiently flows between units, that no information is lost and a sufficient degree of loyalty towards the common goal. Creating companies based on networks of embedded ties could be a successful development strategy for industrialising countries or even a competitive advantage against developed countries companies operating according to traditional principals of bureaucracies (Mathews, 2002). While research on companies in emerging countries has mostly focused on emerging economies in Asia, the managing practices in the Arab world and their cultural and institutional foundations have been mostly neglected by management research. To date no comprehensive model of management practices in Arab countries exists. Weir calls idiosyncratic Arab management and governance mechanisms “the fourth paradigm of management” (Weir, 2000).

Particularly for companies operating in industries shaped by quickly developing technological innovation and demand uncertainties embedded ties can prove to be more efficient than arm’s lengths ties. The high asset specificity and low degrees of standardisation of immature industries require the type of communication which occurs in embedded relationships. Arm’s length ties become an efficient communication and coordination type at later stages of an industry’s development. It is mainly firms from emerging economies that are maintaining embedded relationships and cooperation based on relational contracting and they would gradually switch to market relationships as formal institutions develop (Hoskisson et al., 2005). Zhou argues that this conception focuses only on the exogenous factors of institutions and ignores the path-dependency of regulatory systems (Zhou and Peng, 2009). Arguing that companies already maintaining a large network of embedded and personal ties for interfirm coordination from earlier stages of development, are facing lower network expansion and

maintenance costs than companies entering the market without such social capital. Companies maintaining such a network might want to further exploit the tie they have elaborately cultivated in the past although the institutional framework has reached a sufficiently reliable stage in the meantime. These endogenous costs create a rationale for an idiosyncratic and path dependent development of organisational structure for companies entering the market at different point of time or operating in a foreign market with a different institutional structure than the home market. The persistence of Japanese zaibatsu networks is considered an example for a corporate structure of a modern economy partly relying on relational contracting despite the fact that sophisticated formal institutions have emerged that allow arm's length coordination through a reliable third party enforcement mechanism.

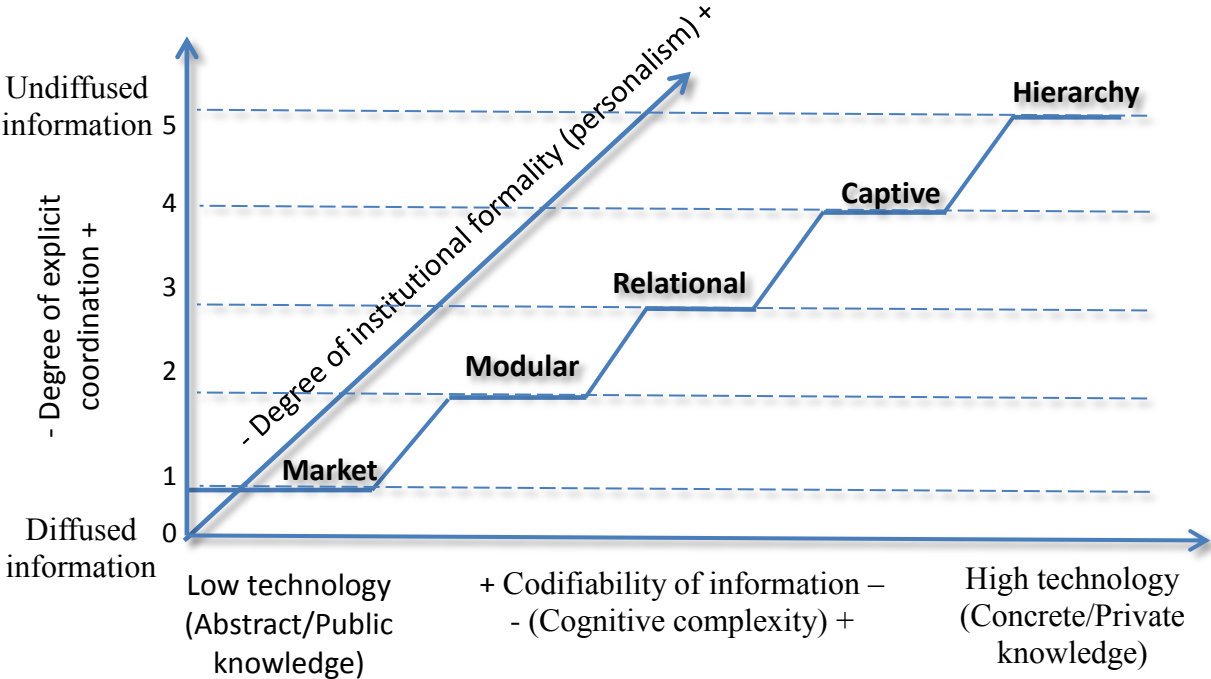
All the above mentioned factors underline that personal and embedded ties governed by informal institutions under certain circumstances are more than just a deviation from impersonal market mechanisms compensating for dysfunctional formal institutions and a remainder from archaic times associated with corruption and nepotism which can be expected to vanish in the advent of rational and anonymous forms of coordination. Networks based on ties shaped by high degrees of personalism can prove to be very rational and effective types of corporate structure under current market conditions.

4.7 Organisational Formality and Supply Chain Governance

Referring to the concept of the I-space which classifies information according to its degree of codification, abstraction and diffusion, the lower layers in this space are marked by a low degree of codification while the upper layers represent information with higher degrees of codification. Depending on the position within the I-space of a society's dominant mode of communication, the respective type of institution emerges. While bureaucracies and markets as formal institutions require highly codified and abstract information, concrete and

uncodified communication leads to informal institutions based on social embeddedness, strong ties and face to face interaction. Institutions regulating social interaction, which are located in the lower spheres of the I-space, are marked by a higher degree of personalism and social embeddedness between actors and show a higher capability in dealing with uncodified information than organisational types located in the upper layers of the I-space. As demonstrated by Uzzi and Lancaster, the flow of uncodified or private knowledge requires a high degree of social embeddedness, while arm's length ties only allow the transmission of highly codified public knowledge (Uzzi and Lancaster, 2003). The relation between institutional formality, tie strength and information transition has been discussed in detail in chapter three. While Gereffi's model argues that a low codification of information leads to a higher degree of integration, it only considers institutional options located in the upper layers of the I-space, markets and bureaucracies. Assuming that institutions varying according to their degree of personalism and formality located in different vertical layers of the I-space have different capabilities of processing uncodified information, then the formality of institutions must impact governance choice. Social embeddedness as a factor that impacts the point at which an organisation switches from one stage of integration to another is ignored by Gereffi's model. Taking this factor into account each institutional setting is choosing individual switching points between governance options depending on its degree of personalism. Since transaction costs arising through technical complexity depend on the institutional ability to process that particular type of information, the point at which transaction costs outweigh opportunity costs of integration is considered to depend on the degree of social embeddedness on which the institutional framework is based. The figure below demonstrates the degrees of integration identified by Gereffi and introduces the dimensions of personalism of interaction.

Figure 4.4: Social Embeddedness, Cognitive Complexity and Degrees of Integration

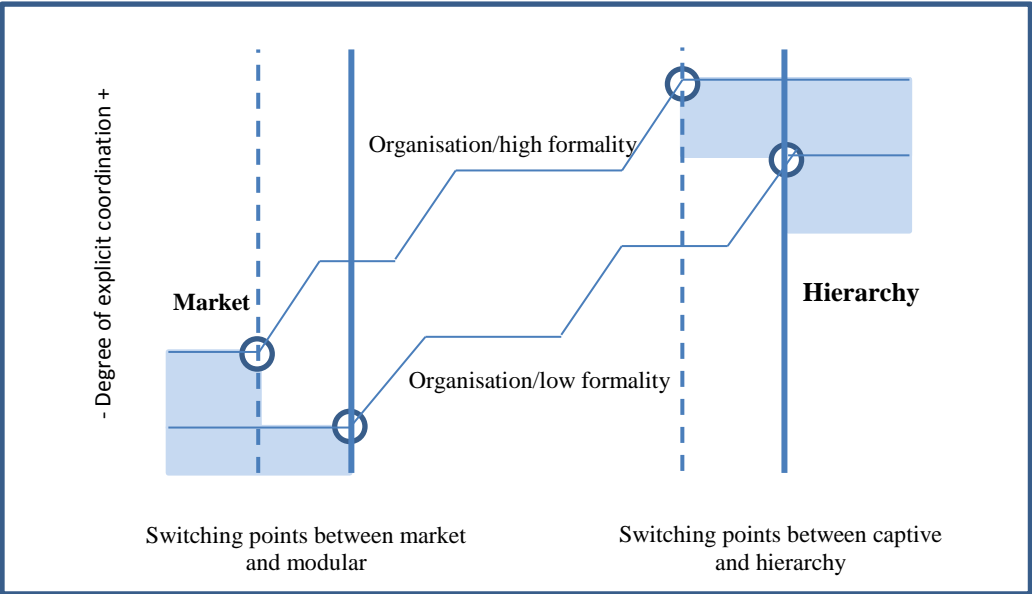


Three scenarios with three institutional settings varying according to their degree of social embeddedness required are discussed to demonstrate how institutions could possibly affect the choice of the degree of integration in supply chains depending on technical complexity. Scenario one represents a systems based on institutions with a very high degree of formality which means interactions are formalised and ties between actors have a high capability of processing public and highly codified knowledge but face difficulties with private and uncoded information. Scenario two describes an institutional setting with a very low degree of formality, actors are operating in a system based on strong social embeddedness where interaction is elaborate and allows transmission of uncoded information but limits diffusion. The third scenario describes a system based on informal institutions, its degree of personalism and required social embeddedness lies between those of scenario one and scenario two. In scenario three personal trust and social embeddedness are necessary to achieve collective action but ties between actors are weaker than in scenario two and interaction is less

elaborate, which reduces the capability to deal with private information but allows a higher degree of diffusion of information. At this stage it is important to emphasise the role of personalism for the achievement of collective action in informal institutional settings. Strong social embeddedness not only serves to process information but is vital for any type of cooperation in these systems.

Referring to the I-space, scenario one would be located in the upper layers of the I-space ranging high on the abstraction scale, an environment that allows the emergence of bureaucracies and markets. Scenario two represents the lower layers of the I-space where fiefs and clans are considered dominant organisation styles. Scenario three is located between scenarios one and two with a medium degree of abstraction and codification.

Figure 4.5: Personalism and Governance Choice in Supply Chains



Source: Neuerburg (2009)

The basic assumption in the model described by Gereffi, is technical complexity prohibiting the codification of information and so increasing transaction costs, which provides a rationale

for the integration of activities in the supply chain. Integration creates opportunity costs since flexibility of market transactions is lost. As soon as transaction costs are higher than opportunity costs, firms have a rational for integration. As discussed above, each institutional setting has different capabilities of handling complex and uncodified information and face transaction costs depending on this capability. While informal institutions as described in scenario two have a comparative advantage in handling uncodified information, formal institutions of scenario one are relatively less capable of dealing with this type of information. Therefore the switching points between the different stages of integration are expected to vary between institutional settings depending on the degree of personalism (Neuerburg, 2009).

By applying the five governance choices in the supply chain provided by the model of Gereffi, the switching points between market and modular relations as well as between captive relations and hierarchy of the three scenarios are contrasted. Scenario one is representing formal institutions and scenario two informal institutions while scenario three, is considered an intermediate between scenario one and two concerning the degree of personalism. Concerning the choice between intermediary types of integration, modular, relational and captive, no assumptions are made at this point.

Comparing the situation between scenario one and two at the transition point between captive and hierarchy, a highly formal system is expected to move earlier to a higher degree of integration than an informal system as represented in scenario two. The relatively higher capability of the system from scenario two to operate in a setting of uncodified information imposes lower transaction costs than an organisation from scenario one would face at the same stage of technical complexity. This allows the organisation of scenario two to avoid opportunity costs longer than for scenario one. In scenario two the point at which transaction costs outweigh opportunity costs is reached relatively later than in scenario one. An

organisation that has effective mechanisms to govern relations not sufficiently covered by formal institutions has fewer incentives to integrate supply chain activities into its organisational hierarchy. Consequently the organisation from scenario three would be expected to choose a transition between captive and hierarchy later than the highly formalised and impersonal organisation of scenario one but probably later than an organisation of scenario two.

At the other significant switching point between market and modular relation, a highly formalised organisation could remain relatively longer in market relations than organisations based on informal institutions. At a point of low technical complexity that allows a high degree of codification of information, an organisation of scenario one can benefit from the flexibility of market transactions, while organisation two requires social embeddedness and personal trust to enable any interaction. The relatively lower ability to interact with other actors based on formal exchange mechanisms and the requirement to create social embeddedness creates high relational transaction costs that justify the acceptance of opportunity costs of modular relations even at a relatively low degree of technical complexity. An organisation from scenario two representing institutional frameworks from lower levels of the I-space is threatened by what Boisot has termed the “chaotic regime” if a too high degree of diffusion is reached. If too large a number of anonymous actors, embedded neither structurally nor socially with a short time horizon and immune to reputational sanctions, as is the case in market transactions, prohibit governance through informal institutions, a collapse of social cooperation is inevitable. Even if technical complexity and as a result the degree of codification allow for a diffusion of information based on market principles, the internal logic of informal organisations might prevent the organisation from disintegration. The transition

point of organisation three is again supposed to be located between those of organisation one and two.

The example of rubber and rice markets in South East Asia illustrates the emergence of commitment relations in relation to transaction costs which emerge due to information difficult to codify. Exchange structures in rice markets and in rubber markets have been investigated. The difference between these two commodities is the possibility of assessing their quality. The quality of rice can be assessed instantly at the market, but the quality of purchased rubber only becomes apparent while processing the purchased product. In the case of rice information about quality is easy to codify and to transmit without much social interaction. The possibility clearly defining and instantly checking the quality of rice leaves little room for opportunism and allows trading of this commodity on spot markets. In the case of rubber, opaque standardization and the lack of possibilities for assessing the quality makes the buyer vulnerable to opportunistic actions of the seller. While rice is traded according to market principles, the exchange of rubber requires the creation of commitment structures where repeated interaction prevents the abuse of information asymmetries in an environment of uncodified information. This example demonstrates how technical complexity and uncodified information is leading to long-term exchange structures and transferring interactions from markets to a framework with some degree of explicit coordination (Kollock, 1994).

Although this example considers complexity as a force for integration, it must be amplified to anticipate the degree of formality of institutions. While an organisation based on formal institutions might choose to integrate rubber production into its corporate structure since transaction costs to monitor quality are prohibitively high, an organisation based on

predominantly informal institutions might not have to do so, since strong personal relationships might be sufficient to prevent opportunism without formal integration.

4.7.1 Organisations and Transactional Complexity

In order to get a more differentiated view of transaction costs, Boisot distinguishes between relational complexity and cognitive complexity. Cognitive complexity describes the complexity of information that is transmitted in a network, highly abstract information or public knowledge is characterised by low cognitive complexity while concrete information and private knowledge shows a high degree of cognitive complexity. Relational complexity in contrast is a concept that captures complexity arising through interaction with a large number of actors. While in markets relational complexity is high since many potential exchange partners are interacting with each other, a limitation of the number of actors as it is the case in commitment relations like bureaucracies, relational complexity is relatively lower. Cognitive and relational complexity are complementary concepts, since low cognitive complexity allows an integration of a large number of actors and so an increase in relational complexity. Due to the institutional environment in which the respective organisational types are located, markets and bureaucracies are operating in a sphere of low cognitive complexity whereas with networks of personal trust, or clans as Boisot calls them, cognitive complexity is relatively high (Boisot and Child, 1999). Technical complexity described by Gereffi as essential technical information which is difficult to codify, the example of the ability to assess the quality of rubber in comparison to rice, in essence is a dimension of cognitive complexity. The structural ability of clans to handle high degrees of cognitive complexity gives clans a comparative advantage in comparison to markets or bureaucracies when dealing with complex technical information. In environments with high relational complexity clans are facing the threat of collapse and are disadvantaged in comparison with markets and bureaucracies.

The assumptions concerning transition points between degrees of integration are summarised by using the cognitive and relational complexity frame. An organisation based on informal institutions, in this case organisation two, faces high transaction costs when operating on markets due the relative incapability of handling relational transaction costs. Therefore the point at which transaction costs outweigh opportunity costs is reached relatively earlier in comparison to company one. This gives company two a rational to abandon market transactions earlier and switch to modular integration. At the other end of the scale, company two has a comparative advantage when dealing with cognitive complexity so that in an environment with complex and uncodified information transaction costs are relatively lower than for organisation type one. Accordingly the point at which transaction costs are high enough to accept opportunity costs of integration, is reached relatively later by company two than by company one.

4.8 Conclusion

This chapter has demonstrated the impact of personalism and formality of institutions on the structure of organisations. Institutions are an important factor in the development of organisations and need to be understood for further research and development of theoretical models in the respective society. The capability of different types of institutions to deal with different types of information is a vital factor for individual and organisational learning and a determining factor in the choice of governance types of organisations. This model provides a framework for further analysis of institutions in Jordan and other countries in which *Wasta* is a pillar of social interaction and so contributes to the development of an Arab management paradigm.

Chapter 5 Institutional Structure in Jordan

The institutional structure in modern Jordan and its historical development will be presented in this chapter. By analysing the pillars of Jordanian social organisation and their role in the creation of a modern Jordanian state, this chapter aims to provide an understanding of the social environment out of which Wasta has grown and what are the historic roots of Wasta. This chapter explains the development of formal and informal organisations in Arab culture in general by anticipating the role of Islam, colonial forces and the foundation of the modern state of Jordan. The history of the creation of modern Jordan is essential for the understanding of the development of Wasta with all its dimensions.

5.1 History of Modern Jordan

The area within the boundaries of the modern state of Jordan has been subject to influences from a large number of different political entities and occupations by foreign powers. Besides a nomadic Arab population, Nabateans and Romans have step up structures of statehood in what is known as Jordan today. The region of what is considered Jordan today has also been part of a Rashidun Empire, an Ummayyad Empire an Abbasid Empire. At later stages the Ottoman Empire has controlled most of the Arab peninsula until its final collapse after World War I in 1919. The institutional structure of Arab Bedouin societies and the relation between forces of central administrations and the nomadic population will be explained in detail later in this chapter. After the great Arab revolt, which liberated the Arab Levant and the regions of the Arab peninsula from Ottoman rule, the British Empire gained influence over large areas in the Middle East, including Palestine and the territories east of the Jordan River.

During World War I, the family of the Hashemites was an important ally of British forces in the fight against the Ottoman Empire. The Hashemites considered themselves the legitimate rulers of the Hejaz, home of the holy sites of Mecca and Medina which are now located in

modern Saudi Arabia. Britain and the Hashemite family agreed that a liberated Hejaz should become subject to Hashemite rule. After the Ottoman defeat Hashemite aspirations to become rulers of the Hejaz could not be realised due to claims of the house of al-Saud to rule this region. Forced out of the Hejaz, the Hashemites northwards to and British policies supported Hashemite claims of power as a reward for loyalty during the war and the great Arab revolt. (Alon, 2007)

Emir Abdullah became the first ruler of what was then known as Transjordan which got recognised by the League of Nations in 1922. At this time Transjordan as an Emirate has still been under British mandate. In 1946 the British mandate ended and the kingdom, then called Jordan, became an independent state recognised by the United Nations. Since 1952 Jordan is a constitutional monarchy. (Alon, 2007) Since 1999 King Abdullah II is the head of state.

5.2 Economic and Political Framework

The Hashemite kingdom of Jordan is an upper middle-income country with a GDP of US \$ 31.243.324,00 in total and US\$ 4.945,00 per capita in 2013. In contrast to neighbouring economies in the region, particularly GCC economies of the Arab peninsula, Jordan is a resource poor economy with no crude oil production. Value creation of the Jordanian economy is dominated by the service sector accounting for 70% of GDP and 75% of jobs. Potash and phosphate are the main commodities to be exported. Lacking exports of goods and services has led to current account deficit US \$ 9.6 billion in 2012. Jordan's main trading partners are Saudi Arabia, EU economies, the US, and China. While the US, Iraq and Saudi Arabia are the main export markets, imports mainly originate from Saudi Arabia, the EU and China. (IMF, 2013)

Jordan is major recipient of subsidies and aid from foreign governments, mainly the US and EU countries. Remittances from Jordanians working abroad have made up to 20% of the GDP during the last decade (Loewe,2007) Jordan is facing an unemployment rate of 12,5 % (2011) whereas youth unemployment is a particular challenge for the government to tackle. At the Human Development Index Jordan is ranked 100 with a score of 0,7.

Applying a rough scheme developed by Schlumberger (2004) countries in the region can be categorised according to two important aspects. Countries in the MENA-region vary vastly according to endowment of resources. As the natural resources, predominantly crude oil, significantly determine the socio-economic structure of a country this category must be considered for an intra-regional comparison. In the MENA-region Schlumberger identifies two main types of policy systems traditional authoritarian and bureaucratic authoritarian. Jordan identified as a country of the category C is considered resource-poor and its regime type traditional authoritarian. In this way Jordan differs from its neighbours with a similar type of political system, the Gulf monarchies, that it has no resources of crude oil. While the economies of neighbouring monarchies of the Gulf are mainly focussed on extraction of crude oil or natural gas, Jordan has no such resources. Other countries in the close vicinity of Jordan which are also considered resource-poor contrast with Jordan according to their regime-type and are considered bureaucratic authoritarian. Iraq, which had been governed according the Baath-party ideology, saw a regime change in 2003 and categorisation is currently difficult. In the region, Jordan is a unique case in the region only resembled by Morocco. An overview of the history and the development of the political system of modern Jordan are provided in chapter five.

Table 5.1: Socioeconomic Regimes in the Middle East

Regime type ->	Traditional-Authoritarian	Bureaucratic-Authoritarian
Economic position		
Resource-Rich	(A) Saudi-Arabia, Bahrain, Oman, Qatar, UAE	(B) Iraq until 2003 Libya until 2011, Algeria
Resource-Poor	(C) Jordan, Morocco	(D) Egypt, Syria, Tunisia, Yemen, Palestinian Entity

Source: Schlumberger (2004)

After 1989 Jordan has followed recommendations to implement neo-liberal economic policies, to improve the economic situation and to boost competitiveness. Jordan has received considerable support from rich neighbouring “oil-economies” particularly Iraq during the 1970s and 1980s. Also remittances from Jordanians working in Iraq has contributed to high GDP growth rates. The collapse of these external income sources due the first Gulf war in Iraq has triggered an economic crisis in Jordan. In exchange for support and financial stabilisation programmes the IMF and the World Bank have demanded policy changes and a major restructuring of the Jordanian economy. During the 1990s Jordan has undergone a wave of privatisations of government-owned organisations and companies, limiting state influence and moving towards a free market economy. The results from exposing economic activity to market forces are evaluated critically in Jordan today. While during the 1990 the Jordanian economy has experienced recession, the early 2000s were marked by high rates of economic growth. Nevertheless, high growth rates were considered to be a result of capital influx from neighbouring countries caused by war rather than an effect of economic reform and productivity gains. The move towards liberalising markets is considered to have had disastrous effect on the labour market and on low-income households. Between 1997 and

2002 unemployment rose from 8% to between 13.7% to 27%, while poverty headcount increased from 3% to an estimated range between 15% and 30%. (El Said and Harrigan, 2009)

A considerable influx of refugees from neighbouring countries suffering from political instability and war, are disrupting the Jordanian labour market and puts pressure on the level of wages. This supply shock on the labour market particularly affects Jordanians competing for low skilled labour. At the same time Jordan is considered a safe haven for assets of wealthy citizens particularly from Iraq and recently Syria. Investments from these countries is mainly focussed on real estate driving up the costs for housing, particularly in the Amman area. This development which is contributing to a deterioration of living standards mainly for the Jordanian working class is severe challenge for political stability of Jordan. (Loewe, 2007)

Nevertheless the Jordanian economy has doubtlessly to some degree also benefited from form its position as a stable country in a volatile region in the recent past. The collapse of Iraq's port-infrastructure has made Jordan a crucial hub for international trade of the Iraqi economy. The Jordanian port of Aqaba handles large parts of Iraq's imports and exports and goods are transported by Jordanian carriers to the Iraqi border. Transportation prices for Iraqi trade through Jordan have risen considerably. Jordan is also considered a stable location for international companies and organisations to set up headquarters for operations in Iraq. Staff located in Amman contribute to the local economy.

Table 5.0.2: Economic Indicators in the MENA Region

	Jordan	Saudi Arabia	Oman	Egypt	Syria	UAE
GDP per capita US\$	4945	20.778 (2011)	23.731 (2011)	3.187	3.289	40.363 (2011)
HDI (score/rank)	0,700/100	0,782/57	0,731/87	0,662/112	0648/116	0,818/41
Rule of law index*	0,59	---	0,54	0,42	---	0,65
GCI (score/rank)	4,23 /64	5,19/18	4,65/32	3,73/107	---	5,07/24

Worldbank (2013)

Although Jordan's economy has experienced high growth rates in the recent past, these numbers must be treated with caution. The Jordanian economy is highly dependent on rents and growth rates do not reflect increased productivity and competitiveness of the private sector.

Jordan's application to join the Gulf Cooperation Council (GCC) was accepted by GCC countries. The GCC is an association of countries in the Gulf region to further integrate their economies, enhance free trade, harmonise legislation and develop mechanism of joint economic governance. Integration into the GCC provides chances for the Jordanian economy to increase exports into neighbouring markets. Jordan is increasingly becoming a haven for investments from Gulf countries, mainly focussing on the real estate sector. This has led to a construction boom in the Amman region.

The Jordanian business sector is dominated by small and medium size enterprises. In Jordan 100.000 companies or 97% of all companies are SMEs generating 50% of the Jordanian GDP and employing 60% of the Jordanian workforce. (Worldbank, 2013)

5.3 Organisational and Business Environment

Literature on management systems in the Arab world in general and in Jordan in particular is very limited. Although Arab countries must not be considered a homogenous cultural block with identical social structures and institutions, Al Faleh (Al Faleh,1987) identified patterns inherent to management practices in business organisations in Arab countries. Although a generalisation of Arab culture is misleading and an automatic and undifferentiated transfer to the Jordanian case must be considered inappropriate, these characteristics provide an orientation and put management practices into a context of their respective cultural environment. Despite heterogeneity of the Arab world, Arab countries share some cultural traits and cultural characteristics inherent to Arab management must be considered to be of a certain relevance to practices in Jordanian organisations.

The cultural characteristics of Arab management, according to Al Faleh, are summarised.

- Within an organisation, status, position and seniority significantly outweigh ability and performance in importance.
- Organisations are centrally controlled with a low level of delegation.
- Subordinates act with deference and obedience in the formal hierarchy of authority.
- Authoritarian management style is predominant.
- Decision making is constantly pushed upwards in the organisation.'
- Most decisions and commitments are renegotiable at a later time.
- The decision-making process is influenced by the prevalence of paternalistic and familial patterns. There is an absence of Western style democratic systems.
- Consultative styles of decision making are pervasive and dominant. This consultation is usually carried out on a person-to-person basis, thus avoiding group

meetings. Moreover, decisions are often made in an informal and unstructured manner.

- Management is reactive and crisis-oriented.
- Organisation members are motivated by affiliation and power needs rather than by performance objectives.
- Social formalities are extremely important.
- Innovation and risk taking are activities which seem to be more often punished than rewarded.
- A low-trust atmosphere and political gamesmanship characterise organisations together with closed information systems and low levels of disclosure of organisation members.
- Constant change and high levels of uncertainty at work.
- There is little opposition and resistance from subordinates.
- There is a strong preference for a person-oriented approach rather than a task-oriented approach in managerial activities.
- In group affiliation and group interaction, kinship ties are important.
- Nepotism is regarded as natural and acceptable. Arab managers view their organisations as family units and often assume a paternal role in them. They value loyalty over efficiency.
- There is a strong adherence to the open-door tradition. It is an integral part of the "underwritten" or "informal" organisational structure.
- Punctuality and time constraints are of much less concern than in Western cultures.
- Managers rely upon family and friendship ties for getting things done within an organisation and in society in general.

Only a very limited number publications specifically dealing with Jordanian business organisations are available in English. With regard to the specific case of Jordan, Khadra (1990) identified patterns of organisational culture. According to Khadra Jordanian organisational culture is facing a high degree of personalism and a low degree of institutionalism. In organisational environments with high degrees of personalism, personal relations are relatively more important than written rules and guidelines. Personal power and charismatic leadership are the modes of management in the respective organisations.

The dimensions of Hofstede's model describing national culture, discussed in chapter three, is a cornerstone for comparative approaches of a nation's cultural environment. Collectivism, power distance, uncertainty avoidance, masculinity and long term-orientation are considered to reflect and operationalise the most relevant aspects of national culture (Hofstede, 2001). Since Jordan is not considered in the multi-national survey of Hofstede no direct comparison between Jordan and other Arab countries or European countries can be made. Nevertheless Jordanian managers are described as risk averse. (Khadra, 1990). Since a high degree of risk-aversion is considered a characteristic of Arab managers in general (Al Hegelan and Palmer, 1985) no comparison can be made between traits of Jordanian managers and managers from neighbouring Arab countries.

5.4 Historic Development of Jordanian Institutions

Although the pre-Islamic Arab-peninsula has seen the emergence of societies based on highly sophisticated and formalized structures of rational organization, particularly in Mesopotamia, and an interaction with other cultures that brought with them systems of bureaucratization and codified law, such as the Roman empire, took place in peripheral areas of Arabia, Arab society before the advent of Islam was pre-modern in its nature. It needs to be emphasised here, that Arab culture at this stage was geographically limited to the areas of the Arab-

peninsula and must not be confused with what is known as the Arab world today. The Arabization of areas beyond the Arab heartland, particularly northern Africa and for a limited period the Caliphate of Cordoba in Andalusia, took place centuries after the Islamization of Arabia. The discussion of the institutional framework of pre-Islamic Arabia is limited to the region of the centre of the Arab-peninsula which is considered the cradle of Arab civilization before its expansion. Before Islam provided a more universal framework for social interaction, the mostly nomadic population relied on a strong tribal structure as bonding social capital that characterized by a high degree of particularism. A state or a codified law was absent and customs and rules could be enforced only through informal institutions. Tribal identity and cohesiveness within the tribe provided islands stability and personal trust in a sea of anarchy. Solidarity within the Arab tribe, vital to the survival of a group in such an environment, was described as “asabiyya” by 14th century sociologist Ibn Khaldun. Strong asabiyya guaranteed the successful organisation of a tribe in such a harsh environment (Ibn-Khaldun et al., 2005).

The term tribe requires a definition at this stage. Tribe or ashira in Arabic is divided in sub-clans called hamula which consist of fahkds and lazam. A hamula is considered the largest politico-administrative unit and an elder serves as a mediator or wasta. “Members of hamulas usually choose their elders on the basis of wisdom, age and generosity.” (Al-Rahami, 2008b: 45) The head of an ashira is called a sheikh whose duty it is to secure welfare of the tribe. “It is the sheik’s duty to represent his tribe, to act as an arbiter and a judge in litigation, to give consent for marriages and divorces, to protect the feeble, to receive guests and to protect the honour of the tribe.” (Al-Rahami, 2008b: 45) What constitutes a tribe is common ancestry, although it is not necessarily based on actual kinship. Sharing a name and cultivating stories of common roots of stories that bound the collective together like hardship in the desert or a

battle against a common enemy provide a narrative that creates a collective feeling which unites several families to an ashira or a tribe. “What makes a person belong to a tribe is not merely successive degrees of genetic relationships- which, after all, every family in the world has – but rather that a person and his/her tribe think the same way; believe in the same principles; assimilate the same values and ethos; act according to the same rules and laws; respect the same hereditary sheikh; live together; defend each other; fight together, and die together.” (Ghazi bin Muhammad, 1999:13) Despite the importance of tribal structure in many Arab societies, ambiguities concerning the definition of what makes a tribe exist among experts. While tribal narrative itself emphasises common kinship Ayubi considers tribes rather a mode of social organisation than a group of people actually sharing common ancestry: “Tribalism, however, belongs more closely to the social imaginaire than it does to the facts of genetics.” (Ayubi, 1995: 51)

Within the structures of a tribe consensus and consultation were emphasised and participation and communication aimed to prevent marginalization and resulting conflicts. The shura is known as a procedure of decision-making in the tribal society of pre-Islamic Arabia. By giving voice to individual members of the tribe, embeddedness and so asabiyya was strengthened, and shura as a check and balance system controlled power of tribal leaders. It is important to emphasise the consultative, participatory and egalitarian aspects of tribal culture. Although tribal leaders or sheikhs were considered authorities, their power was limited. The rule of a sheikh, literally meaning “elder”, was not patrimonial but had to be justified (Al-Rahami, 2008b).

5.4.1 Dispute Resolution Mechanisms

The physical environment in which Arab tribes were embedded and the mode of production, both made the society particularly prone to intertribal conflict and required the development

of strong mechanisms to solve disputes. The dominant mode of production of nomadic and semi-nomadic tribes in Arabia has been pastoralism. Pastoral farming is characterized by three factors that can cause the collapse of entire systems. Both the high mobility of the capital and the low marginal labour-costs that each additional unit of capital is causing, make it very tempting to raid a neighbouring tribe during economic hardship. Whereas in the case of horticultural farming, capital is immobile and an additional unit of capital cannot be utilized unless additional labour can be acquired, the size of a cattle herd can be increased without too much effort. Apart from integrating additional capital the capital itself is mobile in contrast to capital of a horticultural society, where the harvest can be physically removed but not the capital itself. A third aspect of pastoralism is that it relies on public goods or common pool resources shared by several actors but which require regulated access to prevent unsustainable use. As described in the tragedy of the commons, if scarce and commonly owned resources like water or pasture can be used unrestricted each actor has an incentive to overuse and as a result the resource collapses. (Hardin, 1994) All these aspects can potentially destabilise a social structure and require mechanisms to regulate social interaction (Eisenstadt, 1992). The social ethos of Arab tribes, emphasising egalitarianism, consultation and participation does not provide a strict hierarchical order or an authority to regulate social life (Ayubi, 1995). As a consequence conflicts had to be solved by an informal system of arbitration and mediation guided by respected but neutral mediators. This system of conflict resolution provided a fundamental pillar that facilitated collective action, created trust and provided bridging social capital in the absence of a codified law. If a dispute got settled through an arbitrator the decisions of the arbitrator were not legally enforceable but depended on the arbitrator's moral authority. The role of arbitrators was not institutionalised and neither did they have to be member of a certain social sphere, what qualified an arbitrator was the reputation and the moral power to enforce arbitration decisions. Collective responsibility is an

essential aspect of tribal justice (Al-Rahami, 2008a, 2008b). If a member of a tribe commits a crime, it is the entire collective that can be held responsible instead of just the individual who actually violates a norm or harms a member of another tribe. According to this tribal ethos, if justice is not been done in the opinion of the tribe of the victim, revenge can be taken. This threat of becoming a victim of revenge sought for the wrongdoings of a member of the same tribe is a normative force that prevents tribal members from deviant behaviour. Particularly in the case of murder, this structure can lead to further bloodshed and violence. This aspect is essential for understanding the requirement for a dispute resolution mechanism that provides solutions which not just punish violation of norms but establish equilibrium between dispute-parties. It is vital that the hurt party agrees with the judgement and that social harmony is re-established between both parties. A solution just based on principles defined ex-ante only paying tribute to a written law but without concern for satisfaction of the party which got hurt, seriously threatens social stability under a structure of collective guilt. Mediation and arbitration in the tribal context must not be merely understood as an insufficient mechanism that compensates for the absence of a codified law in premodern times, but rather as a system of institutions that anticipates the social values of the environment out of which it grew. A society based on egalitarianism, consultation, consensus, collectivism and collective responsibility embedded in the economic logic of nomadic pastoralism, requires institutions that emphasise social equilibrium, anticipation and harmony.

Although the institutional environment of pre-Islamic Arabia was marked by the absence of a codified law and a domination of customary tribal norms, in some areas arbitration was a structured process. “Mecca for example, was a flourishing centre of trade that had a rudimentary system of legal administration with public arbitrators appointed that applied some sort of commercial law. In contrast, Medina was an agricultural area with some

elementary forms of land tenure which also had a basic justice administration.” (Al-Rahami, 2008a:75)

5.4.2 Islamic Influence on Arab Institutions

The emergence of Islam has revolutionised Arab society and with it its institutional environment. Apart from its transcendental dimension Islam provided a framework of very explicit guidelines for social and also economic interaction. The most fundamental improvement, from an institutional perspective, is the explicitly universal character of Islam (Ayubi, 1995; Ali, 2005). While society in pre-Islamic Arabia was shaped by a particularistic system of blood and kinship relationships and conflicts between clans, Islam emphasised the equality of all believers and the bond that united all followers within the umma al islamiya (Ali, 2005). This new framework was supposed to overcome old tribal rivalries and particularistic tensions in Arab society and provide a base for peaceful coexistence. While in pre-Islamic times an individual’s identity was determined by his tribal background and beyond the secure domain of one’s own tribe one had to fear distrust, in the umma one Muslim was supposed to treat every other Muslim respectfully regardless of the tribal background. In contrast to the premodern system of kinship and family, the umma proposed by the prophet Mohamed was a progressive and universalistic approach that aimed to modernise Arab society fundamentally. Despite this very ambitious aims to create a universalistic society, Islam at the same time strongly emphasises particularistic elements and to a certain degree contradicts its own universal principles by anticipating traditional Arab family values. “The consciousness of belonging to tribe and behaving accordingly... in its extreme form always was – and still is, to this very day – inherently and implacably opposed to Islam.” (Ghazi bin Muhammad, 1999: 21) The establishment of Islam must be understood as a process that despite its divine origin was bound to a this-worldly process of diplomacy,

violence, alliance building and compromise. Since the prophet was lacking the power to simply superimpose the teachings on the society, alliances had to be built and convinced. As part of this process traditional Arab institutions have been anticipated so that Islam got a narrative that alliance partners would find easier to accept. This mutual influence of Islam and Arab culture resulted in a universalistic teaching emphasising the umma and identity beyond all family bonds but at the same time less radically accepting and supporting traditional and particularistic institutions (Eisenstadt, 1992; Ayubi, 1995). “The nomadic tribal formations, so explicitly condemned by Quran, are not in fact dissolved but are merged in a higher integrative level in the name of the Islamic umma, which is in reality –at least initially – basically all Islamised Arab tribes of the Peninsula.” (Ayubi, 1995: 55) Despite what looks like a contradiction from an institutional perspective, Islam has been an integrative force by introducing universal approaches to Arab society and built a more integrated society compared to traditional Arab tribalism (Hourani, 1992).

Apart from providing a universalistic worldview on the abstract level, Islam has introduced very concrete institutions that regulated social but also economic interaction. The degree of codification and explicit formulation have had a very modern character and helped to reduce transaction costs. Although it has been argued by some scholars that Islam is not compatible with capitalism, it is beyond the scope of this study to assess this problem, more recent research outlines the modern character of Islamic economic institutions denies the explanation of Islam as a barrier to economic development. The “Islam and capitalism” discussion is rather dealing with issues of incentives and work ethic but it is undoubted that the institutional structure of Islam provides a framework for economic cooperation and rational organisation (Metwally, 1997; Wilson, 2006).

Compared to the previous situation in which strong social capital and personal trust were required to trade or invest, Islamic institutions reduced the risk of economic ventures, allowed strangers to engage in economic interaction and reduced the necessity to create social embeddedness prior to any activity. Shariah, Islamic law derived from Quran and Sunnah, and three secondary sources Ijma, Qiyas and Ijtihad, provides very explicit rules for a wide range of economic activities. From guidelines for financial transactions to law enforcement on markets, Shariah and Islamic judicial reasoning regulates a large set of economic activity and so allows interaction with a large number of actors, division of labour and specialisation (Zubaida, 2005; Wilson, 2006; Abuznaid, 2006; El-Gamal, 2009).

Property rights are the most fundamental pillar of any capitalist activity. If property rights are not established or enforceable any exchange requires complicated procedures of trust-building and investment in joint activities becomes a risky venture. Despite some rhetoric of Islam being antagonistic to capitalist development, private property is acknowledged and enforceable according to Islam. Despite some limitations by Shariah, private interest is subordinated to public interest; private ownership is no contradiction to Islamic principles. Islam also provided a framework for financial transactions that reduced the risk of investing capital and made claims enforceable. Under the principle of musharakah two parties agree on the sharing of profits that are gained through the investment of capital. A musharakah agreement is then enforceable according to Shariah. Such an institution is significantly reducing transaction costs in a financial transaction (Wilson, 2006; El-Gamal, 2009;).

The reliability of information on a market is crucial to prevent the collapse of exchange systems. As described in a study of the market for lemons (Akerlof, 1970), if information-costs to assess to quality of products in an information asymmetry are too high trade will not take place. The difficulty of verifying information about the goods exchanged can lead to a

delay which can create opportunity costs for actors on a market. A muthasib had the function of regulating markets; according to Islamic jurisprudence, that exchange could take place efficiently and information-costs could be reduced. The role of a muthasib on bazaars was to guarantee that business was compatible with guidelines of Shariah and to prevent fraud. The supervision of transactions assured that standards would be kept and reduced the necessity to acquire information and create social embeddedness in a business transaction. These modern aspects of Islamic institutions provided a base for secure interaction through its codification of law and a higher predictability compared to ancient Bedouin institutions.

Nevertheless, the philosophy of Islamic jurisprudence differs from the formality of institutions based on Roman law or case law in the sense that rules are codified and are supposed to provide stability, but consensus is a cornerstone of decision making. The Quran is quoted: "Let there be amongst you traffic and trade, by mutual good will." (Metwally, 1997: 942) Codified law in continental Europe and in Anglo-Saxon countries in an ideal case provides perfect predictability and a framework that does not require social embeddedness among actors to build trust. In Islam mutual commitment plays an important role and is required in some economic activities such as financial investment. Money cannot simply be lent for a fixed interest rate an invested in an anonymous project, but the creditor is required to share the risk and only allowed to receive a certain percentage of the profit of the joint venture as agreed in the musharakah. A credit is not an anonymous commodity on traded on a market but requires the creditor to be involved in the venture (El-Gamal, 2009). This way of investing is hard to undertake just based on arm's length ties relationships, since it requires a profound understanding of the business and requires a flow of detailed information and creation of trust (Uzzi and Lancaster, 2003).

Consultation is a cornerstone principle of Islam. Instead of rigorously enforcing bureaucratic roles that have been formulated ex ante, the principle of al-shura requires that voice is given to all actors. Consultation is supposed to create of solidarity and commitment among all parties involved. "... it is believed that those who get consulted will become more serious and more committed to the success of such a decision made because he/she took part in its making. The Islamic tradition of consultation stands diametrically the opposite to authoritarianism." (Abuznaid, 2006:133)

Despite the formal and codified institutions provided by Islam which in institutional theory make social embeddedness redundant by reducing transaction costs, personalism is not ruled out but anticipated explicitly as a normative force.

Some pre-Islamic customs remained even after Islamization. The principle of al "urf wal adah" is a rule that allows reference to customs and established practices as a legitimate source of law, as long as, they do not contradict Shariah. Many of the rules of conduct practised before Islam continued to be honoured after its rise, especially customs relating to personal honour, hospitality and courage (Al-Rahami, 2008a). Along with other norms and values the principle of reconciliation and arbitration got anticipated by Islamic jurisprudence. While jurisprudence in the West is in an ideal case considered to be a math-like process-based algorithmic decision making ideally with the highest possible degree of predictability, the preferred process for dispute resolution in Islam is arbitration. In Islam the "duty to reconcile" called Sulh seeks to settle dispute by compromise based on mutual agreement of all parties involved in the dispute. Such an agreement can be reached either by the help of a third party or by the dispute-parties themselves. Sulh, as a mechanism to settle disputes, is considered ethically and religiously superior by Islam. The Prophet is quoted: "If two parties among Believers fall into quarrel, make ye peace between them... make peace between them

with justice, and be fair: For God loves those who are fair and just.” (Al-Rahami, 2008a: 76)

To reach reconciliation or Sulh through a process of arbitration based on the principles of Shariah became the cornerstone of Islamic jurisprudence. The philosophy behind this judicial system is to reach commitment of all parties and so increase the acceptance of any solution and avoid bitterness among any party involved (Al-Rahami, 2008a).

5.4.3 Tanzimat and Institutional Reform under Ottoman Rule

The Ottoman Empire, which controlled large areas of the Arab peninsula from the 17th century to its collapse after WWI, was a major force of modernisation and development in the Arab Middle East. Apart from the development of physical infrastructure, like the construction of railways in the Arab desert, the Ottoman Empire also has pursued the reformation of legal institutions during tanzimat-period at the beginning of the 19th century (Zubaida, 2005). In principle the source of the Ottoman judicial system was Shariah, but it could not be enforced in the entire territory. While in towns and settled areas Shariah indeed has been an enforceable base of jurisdiction, in the desert areas and areas inhabited by nomadic tribes, customary tribal dominated the institutional environment. In fact the millet-system allowed non Muslims and religious minorities to maintain a separate judicial system to govern personal aspects. The tanzimat (reorganization) period initiated by Mustapha Rehsid Pasha must be understood as a reaction of Ottoman rulers to the threat of decline due to internal weaknesses and a growing pressure from external forces, namely the Russian empire and growing colonial interests of European powers in the Middle East. Besides a reorganization of the armed forces and improving the rights of non-Muslims, a fundamental aspect of the tanzimat was the introduction of a modern judicial system. The judicial reforms, called mecelle, included the codification of Shariah law, the development of a modern commercial law, partly inspired by the Code Napoléon and the creation of a professional,

bureaucratic and, most important a state-based, court system (Ma'oz, 1968). In traditional Islamic jurisprudence laws are not made by a state but by Islamic legal experts (Zubaida, 2005). The mecelle-reforms made the formulation and execution an affair of the state and provided it with a more rational and technocratic base. Furthermore, Shariah law for the first time got systematically codified as part of the mecelle-reforms. Initially Shariah could not be considered a code of law but rather a collection of cases and process of discussions. These legal reforms, which also served as the base for the civil code of modern Jordan, were a crucial step towards the modernisation of institutions in the Arab world. It needs to be emphasised at this point that although theoretically almost at times almost the entire Arab peninsula was integral part of the Ottoman Empire, in reality Ottoman rule never entirely penetrated areas inhabited by nomadic tribes in the deserts of Arabia. Administrative power in most cases was limited to urban areas or areas inhabited by settled populations. Interaction with tribal people was mostly limited agreements with tribal leaders. As will be discussed further below, this is a fundamental aspect of institutional development particularly in Jordan (Hourani, 1992; Zubaida, 2005; Al-Rahami, 2008a).

5.4.4 Institutions in Modern Jordan

The judicial system of modern Jordan reflects the history of the geographic area of what is Jordan today. The main source of Jordanian laws originates from Europe with influences from French judicial traditions, particularly in commercial law, and British common law which during the period of the mandate was introduced in Transjordan. Besides these influences Shariah is another source of formal institutions in Jordan. As discussed above, a striking feature of institutional development in Jordan has always been the two tier system of a rather formal administration partly based on codified and modern judicial systems in urban areas and regime of tribal customs in areas dominated by nomadic Bedouins, of which the cornerstone

was mediation. Although tribal culture and Islam have mutually influenced each other and the custom of arbitration and mediation appreciated in tribal culture became a fundamental principle of Islamic jurisprudence at a later stage, the formalisation, codification and bureaucratization of Islamic law, particularly under the Ottoman mecelle-reforms, basically took place in cities and applied to the settled population. (Alon, 2007; Al-Rahami, 2008a) The tribal population for long periods used ancient and premodern modes of social organisation of which Wasta was a cornerstone. Jordanian law is based on constitutional law, Islamic law and custom. This multifaceted and multilayer structure of legal principles and normative enforcement mechanisms of varying degrees of formality get reflected in the judicial system of Jordan. Initially, when the Jordanian state was created in 1951, a three tier system of three separate court systems was in operation. Besides a civil court system, religious courts regulated affairs of personal status such as marriage and divorce and the third layer of the Jordanian judicial system the tribal courts served the part the population officially classified as Bedouins. Tribal courts referred to applied tribal customary law reaching settlements basically through mediation or Wasta. This layer of the judicial system finally got abolished in 1976 and legal distinctions between Bedouin and non-Bedouin citizens are no longer made. Mediation and arbitration are nevertheless still formally pillars of jurisdiction in Jordan and applied as a mechanism to settle disputes. Based on the mediation law of 2006 and the arbitration law of 2001 courts in Jordan encourage the involved parties to reach an agreement with the help of a mediator. (Al-Rahami, 2008a)

In summary the development of the institutional environment in the region that constitutes present-day Jordan has been a complicated process subject to the influence of three major forces, tribal traditions, Islamic jurisdiction and modern judicial systems introduced by colonising powers. Besides these three factors, it is a striking feature of any polity established

within the geographical boundaries of present-day Jordan, that institutional regimes never applied to the entire population equally and that particularly the nomadic population maintained a separate mode of organization during most times of Jordanian history. (Alon, 2007; Al-Rahami, 2008a) Referring to the framework in chapter three to assess institutional formality, Arab, Islamic and Jordanian institutions vary according to their degree of formality and required social embeddedness. While tribal customs are mainly based on reputation mechanisms and lack a codified law and standardised procedures of rule-enforcement, sophisticated dispute-resolution systems provided a more universal base for cooperation beyond strict dyadic personal trust and face to face embeddedness. A system that is at hand to settle disputes reduces risk and widens the circle of potential interaction partners. Due to the uncodified character of normative institutions, enforcement required personal interaction. On the one hand institutions could be considered informal and based on personal monitoring systems, on the other hand, despite their informality tribal dispute resolution mechanisms could not be considered “self enforcing institutions”, since a common procedure of a third intervening party is available to actors engaging in collective action. Tribal norm-enforcement systems can be classified as social capital but imposing lower opportunity costs on actors than a monitoring system exclusively based dyadic on trust.

One of the aims of Islam has been a reform of Arab tribal structure and the creation of a more unified and universal Arab society and to overcome the particularistic structure of pre-Islamic Arabia. With Quran and Shariah, Islam provided universal institutions that provided cooperation mechanisms beyond tribal borders and theoretically reduced transaction costs by making the requirement for social capital partly redundant. Despite the universalistic ambitions of Islamic institutions that showed a relatively high degree of formality compared with ancient Arab institutions, Islamic judicial system favoured principles of mutual

consensus and arbitration, based on a concept called Sulh. With these principles Islam anticipated and modernised traditional Arab institutions. From a social capital perspective these approaches still require elaborate personal interaction, the process of arbitration is communication intensive and not entirely predictable, but does not require strong social embeddedness in advance of taking an economic risk.

The modern institutions based on modern judicial systems, introduced to Jordan by the Ottoman Empire, British colonial administration and at a later stage anticipated and embraced by Jordanian governments are of European origin and show the highest degree of formality. These institutional arrangements require no social capital and no personal trust to be established.

As already mentioned these three systems existed and still exist simultaneously although not every aspect of these institutions is still formally recognized in Jordan today. Since the abolition of tribal courts in 1976 formal Jordanian laws are equally applicable to all citizens of Jordan and no the legally recognised distinct institutional sphere of the Bedouin population has disappeared. Nevertheless tribal customs of arbitration and mediation are partly anticipated by Jordanian law. Besides a civil code, Islamic courts are the second pillar of Jordanian jurisdiction (Al-Rahami, 2008a).

Two aspects of this explanation of the institutional development are of particular importance to this study and need to be emphasised. One aspect is the central role of mediation and arbitration at every level of Jordanian institutions, originating from tribal customs being anticipated by Islam and becoming a pillar of modern Jordan. This way of solving disputes is part of the culture, partly formalised and partly remaining and informal institution. The second aspect is the long tradition of a sophisticated judicial system that can be called

“modern”. The introduction of Islamic jurisdiction provided Arabs a system that allowed cooperation beyond the dimension of social capital. Although arbitration and Sulh play a fundamental role in Islamic jurisdiction it must not be confused with an informal institution. Islamic societies have a long tradition of formal institutions. The implications arising from these insights are that an institutional framework has been in operation, reducing the necessity to form commitment relations and that formal institutions evolved out of local customs and traditions which shaped their distinct character. In Jordan formal and informal institutions are intertwined and can only be understood by analysing their history in which both have mutually influenced each other.

In this chapter the history of the institutional foundations of the systems and cultures that have shaped the state of modern Jordan as well as the current Jordanian institutional framework have been discussed in detail. Jordanian society is an Arab society with tribal traditions that were shaped by the influence of Islam. Modern and formal institutions in the area of the modern state of Jordan were established, at least in urban centres, by colonial powers that have ruled the region, first the Ottoman Empire followed by British colonial rule. Applying the typology of Nayak and Maclean, the formal foreground in Jordan is shaped by the Jordanian model of governance, a constitutional monarchy with a traditionalist cultural orientation forced to apply market oriented economic policy and a pro-western foreign policy. As described above, the Hashemite court has derived its legitimacy in the newly set up political entity of Transjordan from existing power bases of local Bedouin tribes. The structure of power alliances and consensus between actors built on traditional norms and mechanisms is to a certain degree still valid today and providing stability. Jordan in comparison to its neighbours Syria, Iraq and Egypt is considered a traditionalist system since it has not participated in experiments of Arab modernity as practiced in the countries ruled by

governments following a Baath party ideology. The political and economic sphere of Jordan is still heavily influenced by traditional power structures and tribal traditions. The narrative of tribal traditions is also a discursive base of formal organisations which is to be categorised as formal background.

Besides traditional Arab traditions of Bedouin origin, Islam plays a major role in the formal institutional sphere. Particularly the role of an Islamic jurisprudence which is to be applied for civil matters outlines the contribution of Islam to the institutional base of the Jordanian society. Although Islam is considered a cornerstone of social organisation, the endurance of pre Islamic Arab traditions is modifying the role of Islam. Besides the real and practical influence, Islam with its integrative and universal character also acts to unify a society whose stakeholders do not share a frictionless past and form a nation in a relatively young political entity. This narrative of social organisation, emphasised by policymakers constitutes an aspect of the discursive foundations of the formal sphere or the formal background.

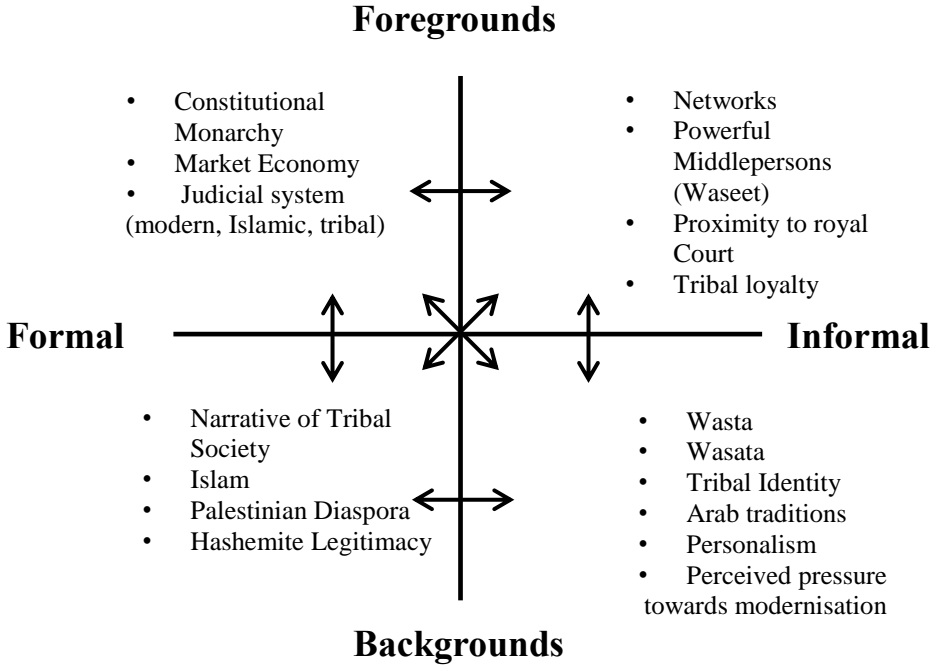
As discussed Jordan has applied strongly market oriented economic policies since the 1990s with major privatisations and market liberalisations. The policies mostly driven by recommendations of the IMF as a post-crisis measure have shifted the Jordanian economy from interventionist and statist planning towards a market economy.

As informal institutions in Jordan have experienced less attention by researchers in the past, the categories in the model of Nayak and Maclean cannot be completed based on existing research. In the foreground of the informality sphere personalism as the social interaction modus is a significant aspect. Wasta as the culture-specific networking mechanism is vital for almost all economic transactions in Jordan. (Cunningham and Sarayrah, 1993; Loewe 2007) Connections and relations to gate-keepers in organisations are to be considered for any kind

of business activities. Beyond the notion of personalism, networking and Wasta with a strong nepotism connotation, little information is available to researchers alien to Jordanian culture relying on publications available in English.

The same applies to the informal background. Convictions, beliefs, shared values and assumptions can be assumed as symmetric to the background on the formal side as formal and informal background are in a dialectic relation. The model presented below is based on insights gained from available literature. The completion of a model representing the institutional environment in Jordan requires a separate research. The categories identified as part of this investigation are an approximation based on available literature.

Figure 5.1: Institutional Context of Jordan



5.4.5 Roots of Rent-Seeking Structures in Modern Jordan

The perception of Wasta is dominated by the dimension of rent-seeking, cronyism and nepotism. Considering the long and positive tradition of mediation and arbitration in Arab and Islamic culture, the political dimension of Wasta needs to be assessed in order to understand the predominantly negative perception of Wasta. Wasta as a concept, besides its traditional meaning, is inherently political in Jordan. The seeds for the rent-seeking dimension of modern Wasta were laid at the early stages of state-building in Jordan. The Ottoman Empire seeking control over the Arab peninsula never managed to successfully penetrate the entire region and only formally governed those areas of inner Arabia beyond urban and semi-urban settlements. These areas were of lesser interest to Ottoman rulers and not much effort was taken to totally integrate Bedouin tribes into Ottoman administration. “[The] badlands of the empire, and the Sublime Port was resigned to leaving it alone as long as it did not jeopardize more important regional interests or possessions such as Syria, Jerusalem or the Hejaz.” (Ghazi bin Muhammad, 1999: 13) While providing a relatively modern and integrative institutional framework, particularly at the late stages of the Ottoman Empire during the tanzimat period, control of tribal areas was limited to building coalitions with local leaders and so relying on existing power bases (Alon, 2007; Al-Rahami, 2008b). By limiting interaction to communication with tribal leaders, sheiks became the gate-keepers for distribution of wealth and power in this part of the Ottoman Empire. “To lessen tribal raids on settled areas and main trade routes, heads of tribes (shaykhs) were paid a tribute (surrah) by foreign powers.” (El-Said and Harrigan, 2009: 1238) For both the Ottoman administration and tribal people, sheiks began to play the role of middlemen between a state-structure and ordinary people. The powers that followed the Ottomans after the defeat of the Ottoman Empire in 1918 continued and further developed that strategy. After WWI the territory of today’s Jordan was part of the British mandate of Palestine. Only 1921 a separate entity named Transjordan was created

under formal rule of Abdullah I of Transjordan but still under British administration until its independence in 1928. Abdullah I, an allied of the British against the Ottoman Empire, was promised the rule of an independent Arabia as a reward for loyalty during the Arab revolt. Abdullah, an offspring of the Hashemite clan originated from the Hejaz region, which belongs to Saudi Arabia today.

The Hashemites competed with the house of al Saud for power in an Arabian state in post-Ottoman times. Since the al Saud in an alliance with the Wahhabites succeeded to become the rulers of a modern Saudi Arabia the Hashemites moved to Transjordan as the new rulers. As a family originating from the Hejaz and lacking any power base in Transjordan, Emir Abdullah had create alliances and convince local leaders to follow the Hashemite rule secure loyalty to the newly established polity. In order to integrate existing power-structures King Abdullah and later King Hussein explicitly drew an Arab-Bedouin narrative to reach legitimacy among tribal leaders. Both rulers spent considerable time in the desert camping with tribes, building alliances, serving as Wasta and mediator in conflicts. With his open-door policy King Abdullah maintained a system of traditional tribal participation and gained the sheikh's legitimacy (Alon, 2007; Al-Rahami, 2008b, 2008a).

Besides the central aspect of this Hashemite nation-building strategy of anticipation of existing tribal power-structures the distribution of, mainly British, resources to and through tribal leaders became a cornerstone in this system. The combination of these two factors, anticipation of traditional institutions and the provision of material resources had a severe impact on social development in Jordan. By granting sheikhs institutionalized political power and rewarding loyalty materially an "hourglass society" and a rentier-economy emerged. Slowly sheikhs became powerful gatekeeper with partly constitutional guaranteed rights to participate in state-power while traditional check and balance mechanism to control power

vanished. “In their capacity as intermediaries and for administrative convenience they became the main channel for distributing state resources. By fulfilling this function, the shaykhs enjoyed greater leverage vis-à-vis their own constituencies.” (Alon, 2007: 73) Particularly after the occupation of the West Bank and the war against Israel, when Jordan has seen a major influx of Palestinian population securing alliances with tribal leaders became vital to stabilize the existing power balance. The institutional consensus provided sheiks a guarantee to maintain their privileged status in Jordanian society. This policy laid the foundation of the modern perception of Wasta.

While in the past Wasta mainly contained mediation services and processes of getting people connected. Modern Wasta suddenly became the dominant strategy for many Jordanians to survive in the modern state structure. The new gatekeepers that maintained a position of exclusive access to state-resources were expected to serve their tribe by distributing public goods or providing jobs in the public administration (Loewe, 2007; Richards and Waterbury, 2008). “Once in power, the occupier of the position is expected to serve the best interests of his kin group. His effectiveness in performing this social duty---commonly known as Wasta -- - then forms the main criterion for his fellow tribespeople for judging him.” (Alon, 2007:155) To date Jordan remains largely a rentier-economy with large proportions of the public budget originating from the United States in order to maintain a pro-Western mood in the country. (Al-Rahami, 2008a) Cronyism and nepotism are a widespread phenomenon in Jordan and officially efforts are taken to abolish these practices (Loewe, 2007). But it needs to be kept in mind that the privileged and institutionalized access to state resources are the downside of a system that has successfully provided stability and channels for political participation, absent in so many countries of the region, by drawing on indigenous institutions and customs. “It created a broad base of support for the stance in Jordanian society, something that was lacking

in many Middle Eastern countries and other new states in the colonial world. By giving tribesmen a clear stake in the existence of the state and the regime.... Who proved their loyalty in times of crisis and uncertainty when the regime seemed about to collapse and the state been undone.” (Alon, 2007:151) Since this social consensus has been the cornerstone of nation-building in Jordan it must be approached carefully and very differentiated before designing policies demanding the crowding out of Wasta. In this sense it must be considered a double-edged sword that binds a society together and at the same time creates discontent and marginalises parts of the same society that it stabilizes. It must be considered what replaces Wasta if it is abolished and what happens if stability is threatened in the attempt to make a system fairer. Just as growing discontent can destabilize a society so can an erosion of the institutional base of a society. In order to prevent a crowding out mechanism a detailed discussion of the precise role of Wasta and its many dimensions is required as well as a clear distinction of when and how Wasta can be harmful and under which circumstances it has positive contributions.

5.5 Conclusion

The previous chapter has demonstrated how the institutional structure of Jordan has developed historically and outlined the central role of mediation in Arab culture and in the modern political unit of Jordan. The function of mediation in pre-Islamic Arab culture as well as in Islamic jurisprudence and the anticipation these traditions in Jordan has been discussed. This chapter has also demonstrated the emergence of rent-seeking structures through colonial policies and nation building strategies. Jordan’s institutional history and rent-seeking structures in Jordan are inextricably intertwined and an understanding of this relation essential for a discussion of Wasta and its ambiguous role in Jordan.

Chapter 6 Summary of Literature Review

The reviewed literature has demonstrated the role of institutions to achieve collective action in an economy. As demonstrated, transaction costs justify the formation of commitment relations between actors in order to coordinate joint activities. Institutions are required to protect actors against opportunistic actions of transaction-partners with whom commitment relations are formed. Institutions are the mechanisms ensuring that actors chose to cooperate rather than defect in an economic transaction. The availability of institutions as governance mechanisms in economic cooperation, allows individuals to enter joint activities and share risk. The type of institutions regulating economic and social interaction is varying across societies according to their degree of formality. While codified rules and laws are categorized as formal institutions, uncodified norms, customs and values are called informal institutions. Institutions with a high degree of informality are based the normative power of peer-pressure, the fear of losing a good reputation or one's face within a group and the acceptance of unwritten rules among participants. Formal institutions in contrast provide clearly codified rules applicable to every actor and known by everybody ex ante, and are enforced by a formalised third party. Since informal institutions lack such enforcement mechanisms, they are considered self-enforcing institutions by institutional theory.

The enforcement of uncodified rules through group pressure and group monitoring requires elaborate and intensive communication between actors and a social structure that provides communication channels within the group allowing the flow of information concerning deviant or defective behaviour of actors. Only such closed networks which prevent anonymity of individuals allow sanctioning of defectors and poses a sufficient check against opportunism. Such a constellation is called structural embeddedness and considered a type of social capital, facilitating collective action in informal environments.

While the enforcement of norms through informal institutions requires structural embeddedness and the construction of personal relations between actors, this is not the case with formal institutions. Consequently formal institutions do not limit the number of actors which can be integrated into a normative system with a high degree of formality.

Due to the limitations of informal institutions concerning the size of groups which can be monitored and the resulting particularism and opportunity costs imposed on actors in such settings, neoclassical economics considers informal institutions premodern and insufficient mechanisms for economic interaction. New institutional economics and experimental research in cultural psychology in contrast outline the necessity of informal institutions certain social environments. Ostrom emphasises the vital importance of informal institutions for the regulation of common goods in developing countries and describes the perverse effect of collapsing resources due to the eradication of traditional informal institutions and introduction of market principles and formalised cooperation mechanisms. Cultural psychology has demonstrated the effect of personal monitoring on cooperation within groups in collectivist societies by experimental research. Cooperation and contribution rates to public goods in collectivist societies collapses if possibilities of face to face monitoring are removed and transactions get formalised and anonymous. This new institutional perspective and the insights from experimental research in cultural psychology demonstrate how a formalisation of social interaction can actually trigger opportunistic behaviour and become counterproductive in collective action situations. In order to avoid such effects, a profound understanding of informal institutions and their role as indigenous governance mechanisms in the respective societies is required. Although informal institutions are considered important factors for economic organisation by new institutional economics, the high degree of personalism between actors also provide the possibility of abusing power. What is called “the

dark side of trust” is the threat of informal institutions to turn into cronyism, nepotism and corruption. This ambiguity of institutional informality with its vital importance for collective action on the one hand and the abuse of power through corruption on the other hand, require a precise typology of institutions to distinguish between harmful and beneficial aspects in order to prevent crowding out of positive aspects in the attempt to eliminate negative dimensions.

Informal institutions require certain social structures in order to fulfil their governance function. Closed networks and personal communication allow the flow of information within networks which make monitoring of individual actions possible. Social structure determines the capability of learning and information processing in these societies. While arm’s length ties and relatively impersonal communication sufficient for communication based on formal institutions favours the flow of codifiable public knowledge, social structure required by informal institutions are relatively more effective in processing less abstract but more detailed private knowledge. Organisations differ according to the type of institutions on which they are built. The I-space identifies four organisational types fiefs, clans, bureaucracies and markets categories according to the type of communication on which they are built. While organisation based on informal institutions are called clans, formal institutions are the base for bureaucracies and markets. The degree of formality of institutions determines organisational structure and its idiosyncratic capability of dealing with information. An understanding of the institutions regulating cooperation in an economic system is essential for research on organisations as well as the development of models in organisational theory.

The institutional environment of present-day Jordan has been shaped by a large number of influences. Arab societies of pre-Islamic Arabia were organised along the lines of tribal structure with tribes as the backbone of social organisation. The central mechanism for intertribal interaction and settling of disputes has been mediation or Wasta. In an environment

lacking a codified law Wasta was an essential institution to solve conflicts between transaction partners. Islam which has both grown out of Arab culture and revolutionised the institutional environment of Arabia by providing universal institutions and a codification of law, has anticipated the role of mediation. Islamic jurisprudence has developed formal institutions and enforcement mechanisms but applied the logic of mediation with the principle of Sulh, which describes the preference of jointly finding a solution instead of imposing decisions.

In general Islam with its universal character has introduced reliable interaction mechanisms applicable to everybody irrespective of tribal background. At a later stage the Ottoman Empire has developed a modern codified legal system and specialised enforcement organisations within its borders, which at times included the area of modern Jordan. Although developing formal and progressive modern institutions, the rule of law in Jordan during Ottoman times was limited to urban and settled areas while the nomadic and semi-nomadic population remained largely unaffected by this development and continued social organisation based on traditional informal institutions, of which Wasta was a central aspect. British colonial rule has further developed the rule of law during the time of the mandate and modernised administration and jurisdiction.

The emergence of the modern state of Jordan from the beginning anticipated existing traditional structures and continued policies practised during Ottoman and British colonial rule, to secure loyalty of tribal leaders through access to resources. This practice of providing access to state resources in exchange for loyalty laid the foundations for rent-seeking structures in the Jordanian state. Wasta, which must be considered an unambiguously positive phenomenon during most of Arab and Jordanian history, has partly developed into a harmful practice of rent-seeking, cronyism and nepotism in modern Jordan. Modern Wasta in Jordan is

a complex and multidimensional phenomenon. Wasta describes a mechanism of mediation and arbitration vital for settling disputes, at the same time Wasta is associated with an unfair practice of nepotism and cronyism. The two categories mediation and intercessory Wasta summarise this ambiguity. While a large number of publications deal with intercessory Wasta and the rent-seeking aspect, little information is available on the mediation dimension of Wasta and which role it plays as an informal institution creating trust. Considering the strong and positive role Wasta used to play as mechanism providing security in transactions, this lack of information is surprising and an obstacle for further business research in the Jordanian or Arab context. Particularly almost no publications are dealing with the trust-building and transaction cost-reducing function of Wasta as an informal institution and social capital in business relations.

Considering the vital role of informal institutions demonstrated in the chapters above and the ambiguous role of Wasta with both harmful and beneficial aspects, a clear and precise description of the positive trust-building function of Wasta is required. The threat of crowding out idiosyncratic governance mechanisms in the attempt of eliminating rent-seeking structures can lead to disastrous effects and crowd out necessary institutions. In order to prevent a crowding out effect and anticipate the role of Wasta in Jordanian business the trust-building function of Wasta must be researched in detail and a clear typology of the beneficial aspects of Wasta must be developed. For this purpose research on Wasta must get embedded into the framework of institutional theory and anticipate insights from the relevant branches of research reviewed in this analysis.

Chapter 7 Research Methodology

This chapter describes the methodology applied by this research, explains how interview questions were developed and which sample has been selected for the empirical part of this investigation, and discusses the philosophical standpoints of this analysis.

This research approaches the investigated phenomenon in three stages. In the first stage an extensive review of the relevant literature, as outlined in figure 1.1, applies a hermeneutical methodology by deriving a theoretical model of Wasta and developing research question on which the empirical analysis is based. Stage two draws on the insights gained from the literature review and the theoretical model derived from it. The empirical analysis assesses the gap in the literature identified in stage one by interviews conducted and provides categories emerging from the analysis of interviews. The third stage of this research reconnects the insights gained from the empirical research to existing literature and develops a theoretical model of management based on Wasta.

7.1 Methodology of Empirical Research

As the literature review demonstrates, the existing literature on Wasta from an institutional perspective and on the role of Wasta for trust-building in a management context is very limited and insufficient for the design of hypotheses to be tested and analysed through a quantitative research design. The lack of understanding and the absence of a typology of trust-creation through Wasta require a research methodology that allows the researcher to gain insights into the structure and functions of the researched phenomenon, without a priori assumptions. The approach of quantitative analysis which tests a priori assumptions which are to be verified or falsified is to be considered inappropriate for this analysis due to limited understanding of the concept. The field of research of Wasta in a management context requires a clear theoretical concept, and a precise description of its role, structure and function

in the relevant environment. Therefore a qualitative approach was selected as the appropriate methodology for the empirical research of this dissertation. The logic of qualitative interviews from which categories of the investigated phenomenon emerge, is suitable to advance the knowledge in this field of research.

7.2 Grounded Theory

Glaser and Strauss (2005) jointly developed a research approach, called grounded theory, in their study “Awareness of Dying” in order to analyse the sociological phenomena of dying. The central approach of grounded theory is to “discover” new theories based on empirical qualitative data. (Glaser and Strauss, 1999). Strauss and Corbin recommend a modification to the methodology according to the research questions, and that the researcher approach the collected qualitative data through existing theories. By that they address what they see as the unrealistic assumption that qualitative research should be approached unconditioned by existing theoretical categories (Strauss and Corbin, 2003). Similarly Eisenhardt (1989) proposes that theories deriving from qualitative data be contrasted with results from scientific literature. “An essential feature of theory building is comparison of the emergent concepts, theory, or hypothesis with extant literature. This involves asking what is this similar to, what does it contradict, and why. A key to this process is to consider a broad range of literature.” (Eisenhardt, 1989: 534)

7.3 Development of Interview Questions

The interview questions were derived from existing literature, which has been reviewed extensively before gathering data, and were targeting the process of personal trust building in Arab societies. An initially developed guideline for interviews was pretested in Liverpool and modified after the feedback of participants. The initial questions turned out to be formulated too abstractly, using terminology directly derived from theoretical literature which had no

meaning in the life-worlds of participants. Furthermore, the questions apparently were based on an image of Jordanian society which was described as outdated by participants. The faulty understanding of social structures could only be gained during the interviews and through informal conversations with experts in Jordan. An aspect which turned out to be crucial in order to identify dimensions of trust building and collective action in Jordan was the avoidance of the term *Wasta* during the initial phase of the interview. The ethically loaded term prevented conversations from developing into the dimensions which were supposed to be investigated and covered structures only to be discovered with improved questions. A category derived from literature, which turned out to be too narrow, was the concept of the in-group. This conceptualisation, based on an oversimplified image of tribal structures in Jordan, led to misunderstandings between the researcher and the researched. A more detailed discussion of this issue will be given in the data-analysis section.

Interviewees were asked to explain their perception of the role of personal trust in modern Jordanian business. This question seemed to be unambiguous since most participants could describe their interpretation without need for further explanation. Then participants were asked to explain how they think personal trust, if required, typically is established in a Jordanian business setting. Since most interviewees claimed that personal trust was an important issue, they were asked to explain why they think that it is required.

7.4 Design of Interview Structure

The interviews were all semi-structured and guided by open interview questions. In order to avoid examining important structures of the researched phenomena by too narrowly formulated questions, interviews consisted of *mapping* and *mining* questions. Mapping questions give participants the opportunity to explain their interpretation and association with the presented category; mining questions anticipate issues raised by interviewees themselves

and explore them in more detail. New dimensions that emerged during the interviews had thus been anticipated and integrated into interview questions. Initially four pilot-interviews were carried out; based on the feedback of the respondents interview the questions were modified anticipating the experiences of these interviews. The development and design of the interview questions and the process of modification is explained in detail in chapter 7.3.

Theory saturation was reached after 16 interviews, by which time familiar patterns of responses had emerged. After theory-saturation was reached 12 more interviews were conducted in order to confirm previous outcomes. The questions developed throughout the research process anticipated feedback from interviewees, experiences during the interviews and responses that indicated misunderstandings.

7.5 Sample Selection

Lincoln and Guba (1983) defined criteria for research based on qualitative methodology to reach trustworthiness. Transferability as a criterion defined by Lincoln and Guba can be established through sample selection. By choosing a sample as representative as possible research outcomes are less likely to be limited to the context in which research has been carried out. A representative sample allows transferring outcomes to a wider context.

The approach regarding sample selection considered most suitable for this research project is snowball sampling. Snowball sampling is a type of non-probability sampling and is respondent-driven (Goodman, 1961; Heckathorn, 1997). Sample selection based on snowball sampling does not define a precise set of respondents *ex ante* but builds the sample through contacts established through respondents themselves. After a completed interview the interviewee was asked to establish a contact to a further respondent whom the interviewee considered competent enough to participate in this research. Although a sample developed

through this approach bears the risk of a biased perception of the investigated phenomenon due to limited representativity, the limited knowledge at the beginning of the research did not allow assumptions regarding the impact of demographic backgrounds or group identities of respondents.

This investigation of Wasta is based on 28 qualitative interviews, 26 in Jordan and two in Liverpool. All interviewees are of Jordanian or Palestinian/Jordanian origin. In order to interview a sample as representative as possible to ensure credibility of the research, respondents working in different fields and industries were chosen. This research explicitly aims to anticipate institutions in the informal sector.

Interview group one consists of 17 interviewees with a business background. These participants are working in business organisations at various levels of hierarchies as decision makers and are confronted with issues of trust in business as part of their profession. Group one represents practices of private business oriented formal organisations in Jordan.

The sample of group two in contrast consists of 11 commentators or onlookers. These interviewees contribute to this research by reflecting their experiences in daily interactions as consumers or employees and broaden the perspective of this research. Particularly when analysing informal institutions an approach taking into account interaction in spheres of informality is required. Ordinary actors in a system do make experiences with the institutional modus operandi when acquiring goods whose quality is difficult to codify or other situations in which an insufficiently formal framework needs to be compensated. In order to gain insights into the structure of institutions beyond the domain of formal companies and organisations, interviewees in group two were chosen to contribute with their insights regarding the role and type of trust in Jordan. Assuming an institutional regime constitutes a

modus operandi in a social system, patterns of trust-building are prevalent in all domains of interaction.

Contrasting two sample groups from various organisational settings controls for the factor of national culture and organisational culture. A certain behavioural pattern identified in group one could mistakenly be interpreted as national culture while the revealed phenomenon in reality might merely represent the practice of a particular organisation. The two sample groups are more likely to allow identifying a representative pattern of institutional structures in Jordan.

Detailed information concerning demographic data, regional distribution and professional background is given in table 7.1. Although contacts with respondents were established based on snowball sampling, interviewees were selected based on their profession. All participants are either employed at business organisations or public institutions in positions in which an understanding of the business environment is crucial or are involved in academic institutions which provide a more theoretical perspective on the researched phenomenon.

Initial contact with respondents was established through academic staff at Liverpool Hope University and Manchester Metropolitan University. After the first interviews in Jordan further respondents were contacted by initial interviewees. 25 of the 26 interviews carried out in Jordan were with interviewees from the greater Amman region, with one interviewee from Irbid, north of Amman. Respondents were predominantly male; only four female respondents could be interviewed. All participants were fluent in the English language and all interviews were carried out in English. The sample completely consisted of participants who had received higher education and graduated from Universities. The inability of the researcher to conduct the interviews in Arabic, the native language of the interviewees, is a limitation to the

representativeness of the selected sample. Interviewees with a capacity to participate in interviews in English may not represent the educational standard in Jordan and reflect a biased view of this sample.

Table 7.1: Table of Respondents

Group one

Interview number	Sex of interviewee	Residence of interviewee	Profession	Company Size
3	Male	Amman	Manager / Tourism Industry	Large
9	Male	Amman	Manager at Logistics Company	Medium
10	Male	Amman	Manager / Financial Sector	Large
12	Female	Amman	Manager / Pharmaceutical Industry	Large
13	Male	Amman	Manager / Jordanian Investment Board	Large
17	Male	Amman	Manager / Media Company	Small
18	Male	Amman	Manager / Pharmaceutical Industry	Large
19	Male	Amman	Manager / Textile Industry	Medium
20	Female	Amman	Manager / Consumer Goods Industry	Small
21	Male	Amman	Manager Real Estate Company	Small
22	Male	Amman	Sales Manager Automotive Components	Medium
23	Male	Amman	Sales Manager Automotive Components	Medium
24	Male	Amman	CEO Translation Company	Small
25	Female	Amman	Risk Manager / Financial Industry	Large
26	Male	Amman	CEO / IT Business	Small
27	Male	Amman	Manager / Marketing	Small
28	Male	Amman	Manager /Pharmaceutical Distributor	Medium

Table 7.2: Table of Respondents (continued)

Group two			
Interview number	Gender of interviewee	Place of interview	Profession
1	Male	Liverpool	Employee at an International Organisation
2	Male	Liverpool	Administrative Officer at University
4	Female	Amman	NGO-worker
5	Male	Amman	NGO-worker
6	Male	Amman	NGO-worker
7	Male	Amman	University Lecturer
8	Male	Irbid	University Professor
11	Male	Amman	University Lecturer
14	Male	Amman	University Lecturer
15	Female	Amman	Lawyer
16	Female	Amman	University Professor

The analysis of the interviews of group one indicates the influence of the size of the organization on the degree of formality and type of institutions on which social interactions are based. Table 7.1 shows the size of the organization in which interviewees of group one are working. Companies have been categorised from the definition applied by the European Commission (European Commission, 2014). Small = less than 50 employees, medium = less than 250 employees, large = more than 250 employees.

Due to the ethical ambiguity of the concept, anonymity was guaranteed in order to gain the trust of interviewees.

Ethnicity turned out to be a further issue which had to be dealt with caution. Although ethnicity seems to have an effect on the perceptions of Wasta (Cunningham and Sarayrah, 1993) according to some interviewees, using categories such as *originally Jordanian* or *Palestinian* could be perceived as creating a divide in Jordanian society and should be

avoided. Due to the inappropriateness of ethnical categorisation, this research does not reflect different roles of Wasta among ethnical groups in Jordan. The role of ethnicity in Jordanian Wasta is considered beyond the scope of this research.

7.6 Coding Method

To analyse data the method of theoretical coding has been applied. Theoretical coding was introduced by sociologists Glaser and Strauss during the 1960s. Theoretical coding is an appropriate methodology to analyse qualitative data, which translates findings from interviews into theoretical concepts and relations. The analysis is focused on the central phenomenon, which in this case the construction of personal trust in Jordan. The three types of coding have been applied: open coding, axial coding and selective coding (Strauss and Corbin, 2003).

Open coding: At this stage of the coding process transcripts are read through and phrases that seem to have a particularly strong expression are marked and coded. The central question during open coding is to identify the phenomenon behind certain expressions. At this initial stage phrases are marked with in-vivo-codes which summarise the meaning of the coded phrases with terms used in the interview or any other term considered suitable by the coder. After going through the transcripts repeatedly in-vivo-codes from several interviews were compared and similar codes describing a phenomenon were summarised in categories from scientific theories.

Axial coding: The following step of axial coding attempts to refine theoretical concepts that emerged from the interviews. Each identified phenomenon is investigated individually in detail in order to analyse potential causes and consequences of each phenomenon.

Selective coding: This coding procedure is further refining concepts from previous stages and combining concepts and creating categories. Selective coding continues the coding process at a higher level of abstraction. (Strauss and Corbin, 2003)

7.7 Research Credibility

In contrast to quantitative and positivist research approaches, the credibility of qualitative research is difficult to assess objectively. Lincoln and Guba (1983) identified criteria for the assessment of the trustworthiness of qualitative research. The bases of the assessment of the quality of qualitative research are criteria derived from quantitative research: objectivity, reliability as well as external and internal validity. While a consensus exists about quality criteria in quantitative sciences this is not the case for qualitative research. Reliability as a parameter for quality is considered problematic by some researchers since an interview is a singular event which is influenced by the researchers themselves. Therefore a variety of criteria have emerged based on various research-paradigms (Weber, 2006; Ritchie, 2007; Hansen, 2009). The criteria of research credibility are summarised in the table below.

This study refers to “conventional benchmarks of rigor” (Guba and Lincoln, 2000). According to these criteria objectivity attempts an inter-subjective stability; validity is concerned with the generalisability of results while reliability is considered a benchmark for result-stability and precision (Ritchie, 2007)

Table 7.3: Research Credibility

Assessing Research Credibility	
Research Credibility Criteria	Method
<p style="text-align: center;"><u>Credibility:</u></p> <p>Degree to which interpretations are acceptably reflecting the interviews.</p>	<p>Interviewees are asked for feedback for models derived from individual interviews.</p>
<p style="text-align: center;"><u>Transferability:</u></p> <p>Degree to which results are not just limited to the specific context of the interviews and can be transferred to other contexts.</p>	<p>Choosing a sample as representative as possible.</p>
<p style="text-align: center;"><u>Dependability:</u></p> <p>Degree to which results are time-stable.</p>	<p>Interviewees are asked about experiences from the past and the present.</p>
<p style="text-align: center;"><u>Confirmability:</u></p> <p>Degree to which results can be confirmed by third parties or interviewees themselves and are not misinterpreted by the researcher.</p>	<p>Interviewees are asked for feedback for models derived from individual interviews.</p>
<p style="text-align: center;"><u>Integrity:</u></p> <p>Degree to which results are free of misinformation and to which reports of participants are complete.</p>	<p>Guaranteeing anonymity for interviewees.</p>
<p style="text-align: center;"><u>Fit:</u></p> <p>Degree to which results fit into the investigated research-context.</p>	<p>Interpretations of interviews are reconnected to analysis of scientific literature.</p>

Source: adapted from Hansen (2009)

7.8 Philosophical Concepts and Research Methodology

The philosophical standpoint of the researcher and their assumptions of reality as well as the conception of the phenomenon investigated affects the choice of methodology and interpretation of the outcome. Therefore a debate of philosophical concepts and a discussion of the positions anticipated by the researcher are required in order to put the investigation into

a wider context. (Saunders, Lewis and Thornhill, 2003) Research, particularly in the social sciences, cannot be approached isolated from a philosophical discourse dealing with questions of the ability of individuals gaining “objective” insights and revealing “truth”. A discussion of the researcher’s ontological and epistemological positions is required in order to interpret the findings of the research undertaken, to be aware of the limitations and to draw legitimate conclusions within the boundaries of these limitations.

7.8.1 Positivism and Constructivism

Positivism and constructivism are two fundamental philosophical conceptions that are concerned with the human capacity to grasp reality. Dating back to early Greek philosophy and Plato’s allegory of the cave, mankind has been pondering if humans’ perceptions actually reflect reality or are a mere image of it misleading individuals in drawing conclusions about how or what the world is. Isolating human thoughts from the deceiving distractions of an external deceiver, as Descartes attempted in the “six meditations”, has been a major concern of philosophers dealing with human reasoning (Descartes and Schmidt, 2005). The position that what individuals are able to perceive of their surrounding world is limited by the capability of their senses and human reasoning and are therefore a human construction, is called constructivism. Positivism on the other hand is claiming that reality can be captured and truth can be found by humans. Based on the constructivist claim that images of the world emerge from human reasoning, objects may only exist in those minds observing the object, what is then called a phenomenon. A noumenon, according to Kant, is an object that exists independent of the minds observing it (Kant and Heidemann, 2006). Contrary to constructivism, positivism is claiming that objects can be approached as noumenons that provide an objective truth. These two general philosophic categories have wide implications

for research approaches and at a lower level of abstraction translate into concrete questions in ontology and epistemology of social research (Ritchie, 2007).

Ontology

A key concept of research philosophy dealing with the approachability of knowledge is Ontology. It is concerned with what there is to know about the world. A major ontological question within the context of social sciences is if a social reality exists independently of human conceptions and interpretations. Asking if reality is just a context-specific interpretation of individuals or if a reality exists as common and shared irrespective of individual interpretations, is a crucial position in the choice of the research methodology (Ritchie, 2007; Saunders, Lewis and Thornhill, 2003).

Within this debate three major ontological positions exist. Realism, materialism and idealism each pose a distinct approach within the ontological discourse. The conception that reality exists independent of individual interpretation or understanding of it is called realism. A realist position is that there is a difference between how the world actually is and how it is perceived by individuals. While materialism also considers the existence of a real world but it only accepts material features as indicators of that reality. Such features can be economic relations or more physical indicators to be measured. Individual interpretations are considered epiphenomena by materialism and it is denied that they have an impact on the material world. The third position, called idealism, claims that reality can only be approached through the individual interpretations constructed socially by the human mind (Saunders, Lewis and Thornhill, 2003; Ritchie, 2007).

Since qualitative research puts its focus on the meaning and interpretations of individuals and attempts to understand the individual contexts of respondents, materialism is the most difficult

position to defend from a qualitative standpoint. Institutions that govern social interaction, which are the research object in this case, are considered to have a normative function allowing for a group of individuals to cooperate and to form a society. Since it is the aim of institutions to enable collective action which they can only fulfil if at least two individuals share this perception, a realist position might be adopted in this case. Despite the assumption that institutions that link individuals exist independent of their interpretation they are considered to be approachable only through human minds. This moderate position between idealism and realism is called subtle or critical realism (Ritchie, 2007).

Epistemology

Another fundamental philosophical dimension is Epistemology. While ontological questions are concerned with *what* we can know about the world, an epistemological discourse deals with *how* we learn about reality. What is our knowledge based on? The most important epistemological positions are positivism and interpretivism.

One issue in epistemology is the question how the researcher and the researched are related. Since natural science assumes that phenomena researched are not affected by experiments and the researcher, this research paradigm can therefore expect to reach “objective” results. This positivist assumption is adopted by some researchers in social sciences but generally researchers in this domain are regarded as having an impact on the researched. The latter assumption is an interpretivist standpoint. Anticipating that a researcher is affecting the behaviour of the researched by studying it, means that social sciences cannot lead to “value free” and “objective” results (Ritchie, 2007; Saunders, Lewis and Thornhill, 2003).

Another epistemological issue deals with concepts of “truth”. Positivism considers that truth exists independent from human minds and that human behaviour is governed by rules that are

law- like. A positivist position therefore justifies the application methods of natural sciences as appropriate for research in the social sciences. From a positivist perspective phenomena can be approached and measured accurately and conclusions drawn can be considered objective. The methodological approach of this position is associated with quantitative testing of hypotheses, isolating causations and deductive reasoning. Qualitative research in contrast attempts to understand the interpretations of social reality of actors and is usually based on an inductive process of reasoning since a positivist assumption is rejected by most qualitative researchers. The perception on which most qualitative views are based is interpretivist claims that an independent reality, that guides human behaviour with absolute and law-like regularities, may not exist and that reality is mediated through human interpretations and therefore best approached through the understanding of both the researched and the researcher (Ritchie, 2007; Saunders, Lewis and Thornhill, 2003).

7.8.2 Deductive and Inductive Reasoning

While deductive reasoning draws conclusions from the general to the specific case, induction is based on the reverse logic of generalising observations from a unique case. Deductive research approaches in the social sciences are derived from natural sciences paradigm of a priori hypothesis formulation, experimental testing and quantitative analysis. Inductive approaches, which qualitative analysis generally is based on, intend to generate theories and hypothesis that emerge from the gathered data. Results from inductive research can be examined quantitatively at a later stage and serve as a basis for deductive approaches. While deductive research is testing hypothesis based on existing categories and existing theories, inductive research processes attempt to identify new categories through observation and interpretation from which new insights for theory refinement and development can be gained. A problematic issue with purely deductive research is the uncritical application of theories

and an interpretation based on theoretically derived categories which might be inappropriate for that research-object. Applying existing categories might limit the capability to fully capture what is to be investigated and provide misleading conclusions. Ideally inductive and deductive reasoning should complement each other and contribute to a suitable research approach. In institutional analysis, particularly in the case of Wasta, theoretical background is very limited so that an analysis based on categories deductively derived from theory is not applicable (Gummesson, 2003; Ritchie, 2007).

7.8.3 Philosophical Positions of this Study

The philosophical standpoints discussed above inevitably influence the research strategies adopted. For example positivist assumptions on which a realist ontological and positivist epistemological positions are based justify the application of a quantitative methodology and deductive reasoning. A positivist researcher accepting that reality independent of individual interpretations is approachable unaffected by the investigator and that law-like regularities provide stable and sufficient categories for analysis of this reality could build on the results of a quantitative study and “prove” causations of the social world. Constructivist standpoints of idealism and interpretivism rejecting positivist assumptions, would consider qualitative studies attempting to understand the lifeworld of participants and inductive reasoning as appropriate research-methodologies.

The philosophical positions anticipated in this research an ontological stance that Hammersley (1992) has termed “subtle realism”, a view that accepts the view of an independent reality but assumes that it only can be approached through interpretations of individuals. As briefly mentioned above, normative institutions that regulate social interaction and provide a basis for collective action need to have a shared and common dimension understood by a certain number of individuals in order to fulfil their function. Despite this collective dimension this

study considers individuals to have their own interpretations and perceptions of this phenomenon. The early stage of this research-topic and the exploratory character require a strategy to understand the structure of the phenomena investigated. The epistemological stance of this research is interpretivist, assuming that interaction between researcher and researched impacts the outcome, particularly in an intercultural project.

The lack of existing literature to derive analytic categories from and the aim to identify internal structures of these social phenomena require an approach from which new categories and theories can emerge. This qualitative strategy to understand individual's interpretations in order to analyse relevant categories for further theory development is an inductive approach, although the study initially begins with process of deductive reasoning by reviewing the existing literature and building on previous theories.

7.9 Conclusion

This chapter has discussed the methodology applied as well as the philosophical stances of this research. It outlined why the applied methodology was selected and how it contributes to the advancement of knowledge in this particular field. Furthermore the process of developing questions for interviews and the structure of interviews is reviewed. This chapter also assesses philosophical standpoints and the relevance to position the research accordingly. Depending on the researched phenomenon and the chosen methodology, epistemological and ontological positions vary. By discussing defining epistemological and ontological aspects, it is critically asked what can be known and how "truth" can be approached by scientific methods.

Chapter 8 Findings

The qualitative interviews aimed to identify a pattern of how personal trust is created in modern Jordanian business situations. The interviews are supposed to provide a typology of the process of trust-building from which a theoretical model can be derived and contrasted with the existing literature on Wasta. The aim is to draw conclusions concerning the role of Wasta in situations in which personal trust is required for cooperation and collective action.

8.1 Pilot-Study Interviews

The initial structure of pilot-interviews was influenced by the existing literature reviewed in previous chapters. Consequently the interview-questions were designed according to the theoretical assumptions derived from existing concepts. A fundamental principle of cooperation based on informal institutions and personal trusts in collectivist societies anticipated in current theories is the distinction between in-group and out-group. While trust between in-group members exists in the form of bonding social capital, cooperation with strangers from an out-group requires the establishment of bridging social capital. Guided by this perspective and the lack of literature dealing with Wasta and personal trust, the question emerged: which group is the trusted in-group and how can in-group status be achieved? Particularly literature on other informal institutions outlines the role of trust-building processes as mechanisms to acquire status as a trusted insider. Anticipating that in Jordan tribal structure plays an important role and that Wasta has been considered an intertribal organisation mechanism, (Schlumberger, 2004) it has been assumed that trust exists within the primary-group of the extended family or the tribe and that cooperation beyond tribal boundaries requires the establishment of personal trust, based on a form of Wasta. The questions of the pilot-interviews were designed according to these assumptions. Interviewees initially were asked three questions. 1. Which role is tribal identity playing in relation to

personal trust? 2. How can trust be established beyond tribal boundaries? 3. What is the role of Wasta in this process? These questions have not been successful and interviewees could not identify themselves with the described scenarios. As interviewees pointed out that common tribal identity would not automatically imply a bond of trust. One aspect is the size of tribes, which make it impossible for individuals to personally know every member of the same tribe, at the same time the premodern concept of tribal identity, although still present in many spheres of Jordanian society, isn't the overall regulating principle in present day Jordan anymore. One participant of the pilot-interviews considered this strong emphasis on tribal-background outdated. Besides the changing meaning of tribes as modes of social organisation and the large size of tribes which allows degrees of anonymity and prevents social cohesion sufficient for the monitoring of individual behaviour, the meaning of tribal structure varies between different ethnic groups in Jordan. As pilot-interviewees have pointed out, the role of tribal identity is significantly less important to Jordanians with a Palestinian background than to other parts of the Jordanian society.

Besides the conception of the structure of in-groups and out-groups concerning trust which had to be adjusted for further interviews, the use of the term Wasta in interviews also had to be reconsidered since individual associations with that term triggered a bias of answers towards the rent-seeking aspect of this phenomenon.

Further questions of pilot-interviews aimed to identify the role of gifts in the process of trust building. Anticipating this category from existing models dealing with informal institutions as discussed in the literature review, participants were asked about the role of gifts in the process of establishing a new trust relation. Since interviewees emphasised that giving of gifts in a business context is strongly associated with corruption in Jordan, this question has turned out

as inappropriate and counterproductive in establishing a trustful setting for the interview. Therefore this question has not been considered in further interviews.

Based on the model of personal trust by Yamagishi (2008) which assumes that the greater the cultural and social distance, the stronger the requirement for personal trust, interviewees were asked about the necessity for foreign businesspeople to establish a base of trust. Since the interviewer himself is a foreigner in Jordan, the question created situations which either made the interviewee feel uncomfortable since the answer was considered impolite, or an answer would be given which could not be understood as an insult. Both situations, either receiving a biased answer or creating an uncomfortable setting for the interviewee, did not contribute to the aim of this research. This question was not repeated in the following interviews.

Based on the experiences of the initial interviews the questions were adapted. Since no information was available on trust and tribal identity as well as on role and structure of in-group and out-group identities, a grounded theory approach free of any theoretical preconditions appeared to be the most appropriate methodology.

As interviews evolved, two fundamental questions which turned out to be suitable to explore the researched phenomenon emerged:

“What is the role of personal trust in modern Jordanian business?” and

“How can personal trust be established if it is required?”

The aim of question one was to explore the role of personal trust in general and to identify if personal trust has a significant meaning to businesspeople in Jordan and if yes, why. Question two provided interviewees the possibility to describe how they perceived that personal trust is established if it is required. Using this approach no theoretical categories have conditioned the answers of participants. Participants have not been asked about their opinion on Wasta, but

the categories emerged from the answers given to this question, will be contrasted with existing literature dealing with Wasta.

Considering the negative perception of the term Wasta and the dominant association of the term with cronyism, nepotism and corruption in modern Jordan, the strategy has been to identify the role of personal trust, finding patterns of how personal trust is established if required and analyse the identified structures. In order to avoid any preconception and a bias towards participants' personal associations, the term Wasta was avoided during the interviews as far as possible.

Following the concept of a semi-structured interview the two questions have the character of "mapping questions" to give participants the opportunity to come up with broad concepts and associations in relation to the questions. The concepts emerging during the interviews were explored by following "mining questions" which asked interviewees to provide more detailed explanations of answers given previously. Since mining questions anticipate responses of interviewees and emerge during the interviews, these questions vary between interviews and are not standardised. The term Wasta was avoided during the interviews as far as possible, to prevent any bias based on associations of the interviewees with this term. As mentioned the approach of this qualitative research is to analyse concepts and categories that have emerged during the interviews and identify patterns of Wasta in any process of trust-building described by interviewees.

8.1.1 Key to Data Analysis Figures

The figures in this chapter illustrate structures emerging from the analysis of the interviews.

The illustrations are using the following items:



= rectangular boxes describe categories identified. This describes the highest degree of abstraction in this analysis and summarises the meanings of all in-vivo codes aggregating into this category.



= circles describe the in-vivo codes that emerged during data analysis. These codes summarise expressions made by interviewees but represent a lower degree of abstraction than the categories into which in-vivo codes aggregate.

The size of items is determined by the containing text through the computer program Nvivo and has no meaning in the analysis of interviews.

8.2 Role of Personal Trust

The concepts identified from responses of the first question, summarised in the category “role of trust” are: cultural habit, distrust against strangers, confidence in formal contract, importance of personal trust, development over time, requirement of formal contract and confidence in legal system.

8.2.1 Importance of Personal Trust

The first question aimed to explore the dimension of personalism in economic transactions in modern Jordan. This step was required since any questions related to the structure and dynamics of personal trust only make sense if the mode of interaction involves personal trust at all and is based on informal institutions as a significant governance principle between actors. The relation between formality, personalism and trust was described in chapter three. Since the aim of this research is to investigate idiosyncratic governance mechanisms based on informal institutions, the type of institution on which interaction is based needs to be assessed.

From the answers given to question one, seven concepts emerged of which five aggregate into two subcategories.

The most important finding among these concepts is the emphasis on the importance of personal trust. Fifteen interviewees have outlined the relevance to build personal trust in business situations in Jordan. Text references below demonstrate the perception of interviewees which consider personal trust a central pillar of economic interaction. No interviewee has explicitly considered personal trust as an insignificant factor.

Table 8.1: Importance of Personal Trust Category

Category	Example of text reference (Interview number)
Importance of personal trust	It is important, very important. Establishing the trust in business is very important in Jordan. Of course when I do business with someone I have to trust him. (12)
	So if you can make trust between two for example businessmen or two businesses you can get what you want easily. (10)
	I think in general in the Middle East, trust is very important. We don't deal with any other parties unless there is some trust. (14)
	If two people don't know about each other in Jordan it is very unlikely that they will do any business together. (12)
	So I need to trust this person to be honest. My myself, there are many people who do the same. I need to trust this person. (13)
	It is extremely important! It is extremely important to build personal trust in Jordan. (15)
	This is the way it is done in Jordan, but because of our relationship , our personal contacts our personal trust I would create a business with you. This is the main issue, I wouldn't go and do business with a person I don't trust. It is impossible. (2)

8.2.2 Rationale for Trust Building

As illustrated in the figure below, the concepts of cultural habit, distrust of strangers and confidence in formal contract aggregate into the category “Reason to build trust”. In these concepts interviewees explained why they think that personal trust is required if business is done. Besides lacking confidence in formal contracts and distrust against strangers, which are obstacles for cooperation that are compensated by personal trust as predicted by institutional economic theory, it is noteworthy that five participants emphasised that it is part of their cultural tradition to operate based on personal relations.

Table 8.2 Reason for Trust-Building Category

Category	Example of text reference (Interview number)
Rationale for trust building	<p>Sometimes the contract doesn't protect you from all things, like fooling, maybe he fooled you. Or something. So I need to trust this person to be honest. (13)</p>
	<p>The contract can't protect me 100 %, imagine the whole work has collapsed because of that person. He was doing something. If the contract collapses both parties will lose. Maybe he has planned these things, behind my back. How can I know? How can the contract protect me? (13)</p>
	<p>He is trying to be clever, ok but next time.....ok you told me a good lesson but next time I should be very cautious when it comes to these things and specify every comma and every full stop and hyphen and make sure it is all there. It is clear to you and it is binding contract you know that . A contract I personally do not believe in that comes out of signing contract. (19)</p>
Rationale for trust building	<p>I'm originally Jordanian and I feel that I can build trust with other originally Jordanian more than with someone from other nation... from other origin. (10)</p>
	<p>so of course you prefer business with friends rather than with strange person. (6)</p> <p>In Jordan it is not very common to make business with someone you just met. (9)</p>
Rationale for trust building	<p>It is deep in our culture, everything is... most things in the business you must relate with the culture of the society. So our culture here is building the relationship. (10)</p>
	<p>the culture is based on the Bedouin habits we have..... we the Bedouin habit this mediation is there since all times. (20)</p> <p>In our culture when we start conversation we try make connections. (17)</p>
Rationale for trust building	<p>You know it will need a third party just to facilitate the whole interaction. (13)</p>
	<p>I know that person, he recommended you for me..... let's say it is to facilitate the business. (11)</p> <p>It is very important for the business. Because sometimes it makes the job easily. (10)</p>

The code “importance of personal trust” contains the explicit emphasis on the requirement to build trust. The statements summarised in the codes of the category “rationale for trust building” must be understood as implicit support for the code “importance of personal trust”. Although not directly mentioning the importance of trust these five codes imply that the creation of personal trust is either culturally determined or required due to structural deficits of formal institutions. Interviewee 7 did not provide an answer that could be coded “importance of personal trust”, but statements coded in the “reason to build trust” concept emphasise this aspect.

8.2.3 Formality and Trust

The concepts “requirement for formal contract” and “confidence in legal system”, which aggregate into the code formality and trust, express the perception of interviewees towards the relation between formality and personalism in business in Jordan. Although trust was considered an important factor by 22 interviewees, 10 of them at the same time expressed that formal institutions must not be ignored and that informal institutions are not the exclusive mode of operation in Jordanian business. Out of the 12 interviews in which the requirement for formal contracts was emphasised, only two interviews did not mention the importance of personal trust at the same time. As mentioned interviewee 7 has emphasised personal trust in a narrative which was coded in the “reason to build trust” categories. Three interviewees explicitly expressed their confidence in the legal systems but at the same time made statements which were coded as either “importance of personal trust” or in one of the categories summarised in “reason for building trust”. The emphasis on formal contracts and on personal relations at the same time is not necessarily a contradiction. As demonstrated in chapter three institutional arrangements can be categorized according to a formality scale between strictly formal and strictly informal. The analysis of these interviews shows that

although officially based on formal institutions personal trust is considered a crucial factor. Interviewee 13 mentioned that trust is required due to a lack of confidence in formal contracts and at the same time expressed confidence in the general legal system and the necessity to operate based on written agreements. Contradictory statements were found, in which initially the reliability of formal contracts was pointed out, while at a later stage of the interview this position changed and the importance of personal trust due to the inability to protect against opportunism was stressed. Interviewee 9 explained the necessity of written contracts while at the same time explaining that a written contract, although required, is not a reliable protection against opportunism.

Table 8.3: Formality and Trust Category

Category		Example of text reference
		(Interview number)
Formality and trust	Requirement for formal contract	but still as I said you need a contract, the contract is very important. (9)
		But in business it is not always the case, you have to know things are changing, especially in Amman. Today business operate mostly based on contract. This Wasta and Mediation still exists in business but still there are contracts. (17)
		But I want you to understand even though in Jordan where personal relations and people in between they recommend people for but at same time there are contracts involved. (11)
	Confidence in legal system	But the contract is the main issue and we have here courts our legal system is quite robust and it is a quite efficient one and the people can go to courts and they can do these things. (13)
		We are having courts in Jordan, we are having very advanced banking system in Jordan, everything is organised. (11)
	Well if I do business, I would rely on the law, that if someone violates his duties he would be I would rely on the contract and the conditions stated in the contract. (1)	

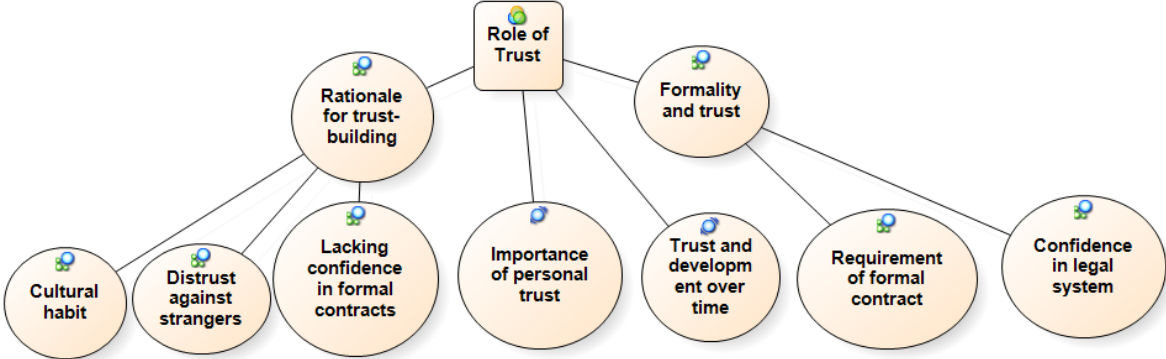
Of the 16 interviewees whose statements are coded in one of the trust concepts only interviewee 3 emphasises formality without mentioning the necessity for support by personal trust. Although emphasising the role of personal trust in business relations five interviewees also described the normative power of personalism as a reliable governance mechanism and noted that traditional mechanisms of cooperation are changing in the face of modernity.

Table 8.4: Trust and Development over Time

Category	Example of text reference (Interview number)
Trust and development over time	In the past maybe. Elder people think like this, I trust him and I trust him more than papers. But things are changing. (11)
	And I think if you come to your research in 20 years in Amman... maybe you find the people don't even know what you are talking about... (15)
	Previously it was like that, you need that you want this you don't have to be afraid you can take it with you and will be fine... it was that level, but things simpler before, but now things are more complex. When you talk about personal trust, it got less. (18)

The picture emerging from the answers to the first question leads to the assumption that personalism and trust are considerable factors in Jordanian business relationships.

Figure 8.1: Role of Trust



8.3 Trust Building

Assuming that personalism and trust are significant in economic transactions in Jordan, the emerging question is: how is trust created if it is required? Or in other words: What are the mechanisms besides formal institutions that provide the required reliable checks against opportunism and provide security to facilitate collective action? Given the ambiguous conceptualization of Wasta it is not clear what role the dimensions of Wasta identified in chapter two play in collective action situations and how they potentially contribute to social cooperation by providing security to actors involved. The design of the second question again aimed to allow interviewees to come up with broad concepts and to avoid any preconceptions. From the answers given to this question, 10 concepts have emerged, which aggregate into the three subcategories reputation, role of third party and social embeddedness.

8.3.1 Reputation

The four concepts “exploring structural embeddedness, gathering information through third parties, creating informational context approaching through third party or with reference of third party” all aggregate into the category “reputation”. The codes of this category all emphasise the role of information about actors and their reputation in networks in the process of building trust. Expressions of 17 interviewees were coded in one of the categories which aggregate into “reputation”. At an early stage before a connection of personal trust exists the “evaluation” of potential cooperation partners was emphasised as a crucial step in 10 interviews. In the concept “creating informational context” interviewees express that gathering information about social background, trustworthiness and reputation are considered important steps in building personal trust. Acquiring information about regional origin, family name or any other information that allows putting a potential cooperation partner into a context has been considered an important and common procedure in Jordanian business. It is

noteworthy that this procedure is considered a cultural habit by 5 interviewees. Since assessing and evaluating a person's reputation is an aspect of the way business is done traditionally.

Table 8.5: Reputation Category

Category	Example of text reference (Interview number)
Creating information al context	people want to know more about you... asking you... even sometimes about personal information... trying to ask you a lot... to get a lot of information about you... and in this way people build a relationship with other people. (10)
	Maybe I check his family name.... is he from a good family, from which region is he? I need to get a lot of information about him. A good name can create trust.(12)
	The first thing you do is your try to get information about someone. You evaluate his reputation. You look at his name and probably you will know where he is from. If he is from family xy you can probably tell by the name from which region he is. Most Jordanians are familiar with names of the big families and can locate them somewhere. If you want to do business with someone you don't know you can get information about him through the name.....(17)
Reputati on	Yes, if he is Jordanian I can get a lot of information from.... just from his family name and surely I will know some person.... and if I don't know his family name, or other person from the same family.... I will ask, I will find easily, and I will a lot of information about him and I will find if he is a good guy or not. I think its close to each other here in Jordan. In Arabic culture.... (10)
	Gathering information through third parties
	Ask him what he thinks about this person about this company. What do you think about that? Find things out about him.... Go to people to get information. In this case you start to evaluate. (11)
Exploring structural	What his reputation is, can I trust this person? Maybe me myself I don't know this person, or I don't know this company. But other friends other people they might know them. So they can give me an advice. So that is also common in Jordan here, that we ask before we do something. Like I ask my colleague do you know this person, this company? Yes I know. Do you think I can trade with this company, is it good quality etc? So he can give me an opinion, I can do some kind of market research about this company. Is it trustable, and then I can go ahead with the contract. (13)
	By the way, if both of us are Jordanian and I don't know your family or your tribe, talking about similar connections enhances trust. See, like there is a third tribe let's talk about a further tribe you know that person and I know that person, that will enhance

embedded- ness	trust between us. (14) I will start to create these links I will search for bloodlines, especially bloodlines, we will start with this, (5) Between Jordan again yes, it is a small country, I know N.... I know your father I know your uncle what is he doing, this is the way we do business. (20)
Approachin g through third party or with reference of third party	because I trust him depending on his knowledge. And he trusts you and he told me..... ok for example, he makes a connection between me and you (10) In most of the cases he will go with you or she will go with you. Look after him I know this person, give him a good price. This is the sense here in Jordan. Look after him, give him a good price, he is our friend we know him. This is how things work in Jordan. (11) You contact that guy, either you go directly or you find someone who can introduce you. It is easier if you find someone who can make the connection, who can say I know this guy he would like meet you maybe he wants to do some business with you. It is faster, he can give you some information about him and give him some information about you. (17)

The category “gathering information through third parties”, emphasises the aspect of a middleman in the process of information gathering described above. Prior to approaching an unfamiliar person in order to start business, common contacts are searched and the experience of previous cooperation is assessed. Interviewees pointed out that information of regional origin and family background are helpful to create connections and identify common contacts. The small size of the country was mentioned by two interviewees as an aspect that allows identifying a common contact and acquiring information with most persons in the country. Since 12 interviewees described information gathering through their network as essential and a frequent practice in the process of establishing connections, these references were summarised in a separate category.

“Approaching though third party or with reference of third party”, expresses the role of a middleman in the process of personal trust-building. Having a reference of a trusted person that introduces the unfamiliar parties to each other was mentioned by 16 interviewees as a

crucial step when a new connection needs to be established. The good reputation of a common contact who emphasises the trustworthiness of the unfamiliar cooperation partner was brought up as an important factor that contributes to create trust in business relations, when it is required. The emergence of this category is noteworthy for two reasons. One reason is that it emphasises the degree of personalism in business relations and the role which reputation is playing in the trust dimension, the second aspect is the role of a third party that interviewees mention at this point. As will be discussed further below, a third party entering the dynamics of a process of trust building will be the central aspect of any further analysis. As interviewee number 6 pointed out, some middlemen are specialized in making connections between strangers. The common practice of building connections between unfamiliar actors partly seems to be carried out by well connected hubs in the network.

8.3.2 Third Party

The categories “face of middleman”, “liability of middleman”, “providing normative pressure” and “mediation in case of dispute” aggregate into the concept “third party”. In these concepts the role of middlemen in setting up relationships and in resulting cooperation is explained. The analysis of this concept is of vital importance since it is one of the aims of this research to identify patterns of Wasta in governance mechanisms. While the concept “approaching through third party or through reference of third party” described how new contacts are initiated and emphasises the role of a trusted common contact as well as the importance of the reputation of that contact, the concepts aggregating in “third party” deal with the role of a middleman once such a relation has been established. Referring to the concept of informal institutions, these concepts explain how a middleman involved provides security which allows collective action. 25 interviewees described a scenario which was coded in one of these categories as a contributor to trust. Only in interviews 4 and 16 no

reference could be coded according to these concepts. The strongest concept which emerged from the analysed interviews is “providing normative pressure”. In this category interviewees described that a middleman who initiates a new relationship in many cases is involved if one party is defecting and not meeting expectations. As 20 interviewees pointed out, a contact that assists in building a new relationship is expected to put pressure on the defecting party. “Mediation in case of dispute” has emerged as another significant concept which 15 participants mentioned as a factor which facilitates cooperation and creates trust. The availability of a mediator in case of a dispute was brought up as a factor which contributes to personal trust between parties. A middleman who helps to build a relation might also be expected to serve as a mediator if both parties need to settle a dispute, and so facilitates collective action. Three interviewees have also mentioned that a middleman might be held liable if problems arise between the two newly connected actors.

Table 8.6: Third Party Category

Category	Example of text reference (Interview number)
Providing normative pressure	They will get back to you. They will call you after a while, your friend, you recommended me to buy laptop from him and it is rubbish. So that is not good, go and have a word with him.... ok let me talk to him, this how things are working. (11)
	he can be used as a tool of pressure, to set some pressure. If I'm not satisfied with you I might talk to you directly and at the same time talk to him, because he is the one who introduced you to me. So I will ask him to talk to you. (14)
Mediation in case of dispute	He would agree to do it, because if I screw up. He can go to this important person who will put pressure on me, to do something to pay back. So he builds personal trust based on that. Because he knows there is a reference who can protect his interests it is another way of doing it. (18)
	I think 50-60% of the cases when a conflict happens the one in between most the times tries to settle the job. Between both parties. But not in all cases. (11) He might play in a friendly way. Please come and interfere, you recommended this one, please can you do something some solutions, can you propose some solutions. But in a friendly

		way. (13)
		the who introduced us to the company, we will call him. We will call him to mediate (20)
		In this Dr. XXXX advises me to make a business with you. And I did, you delivered me a good product which satisfies me. So I white his face. His face will be white. But if you provide me a bad quality and I'm not satisfied so.... make it black, a black face. (10)
	Face of Middleman	Like, for example you recommend someone, and I told you, you can trust him and this was a failure I would have a black face because I gave you a bad recommendation. I would have a black face, but if that recommendation was good I would have a white face. Imagine there would be a problem between two parties, I would have a black face. (13)
Third party		This is very important, because the middleman introduces someone to me, he will be concerned to give me white face. He will be given a white if the relationship between me and you works out. The business is profitable and the process was easy he will be given a white face, otherwise his face will be black. Black face means black reputation. (14)
		I want to do a business another company, another company and they don't trust my credit- issue or my future activity or something like that. The third party might be here as a guarantee. To guarantee. (13)
	Liability of Middleman	Professor X, it happened before two months and then I had to get involved, I had to pay the money from my own pocket and then got the money from the craftsman. See what I say? So this is how the middleman sometimes gets the problem (7)
		Somehow, it is not a formal guarantee. But it is like he would share the responsibility with me. (14)

The concept “face of middleman” describes the obligation of the middleman to live up to the expectations of the two parties connected by the middleman. An actor who introduces one unfamiliar actor to a potential cooperation partner loses face if the cooperation fails due to the defection of one party. Deviant behaviour of the party benefitting from the credibility of the middleman harms the reputation of the broker who assisted in setting up the relation. Thirteen interviewees mentioned this phenomenon. During the interviews the concept of “giving someone a white face” or “whitening somebody’s face”, which describes the ambition of a

newly introduced actor to satisfy the expectations of the cooperation partner and so “whiten his or her face” which means an enhanced status of the middleman in the network.

8.3.3 Social Embeddedness

The categories “growing trust through repeated interaction” and “personal interaction” that aggregate into “social embeddedness” summarise the mechanisms which contribute to build personal trust through social embeddedness between two actors. In contrast to the concepts analysed in the “third party” category which emphasise the aspect of assurance through the interventions and implicit pressure of a middleman which contribute to create trust, “social embeddedness” expresses the direct dyadic interaction between two new cooperation partners, which was emphasised by 23 interviewees. 8 interviewees emphasised direct personal interaction as essential for a successful business relationship. Personal interaction on the private level which contributes to social embeddedness and developing a trustful relationship with business partners was brought up by participants as a contributor to personal trust. The category “growing trust through repeated interaction” describes the strategy of participants to slowly increase risk in cooperation after first checking an actor’s trustworthiness in minor business transactions. Only after successful cooperation in small transactions at the beginning interviewee 17 would start to trust other actors.

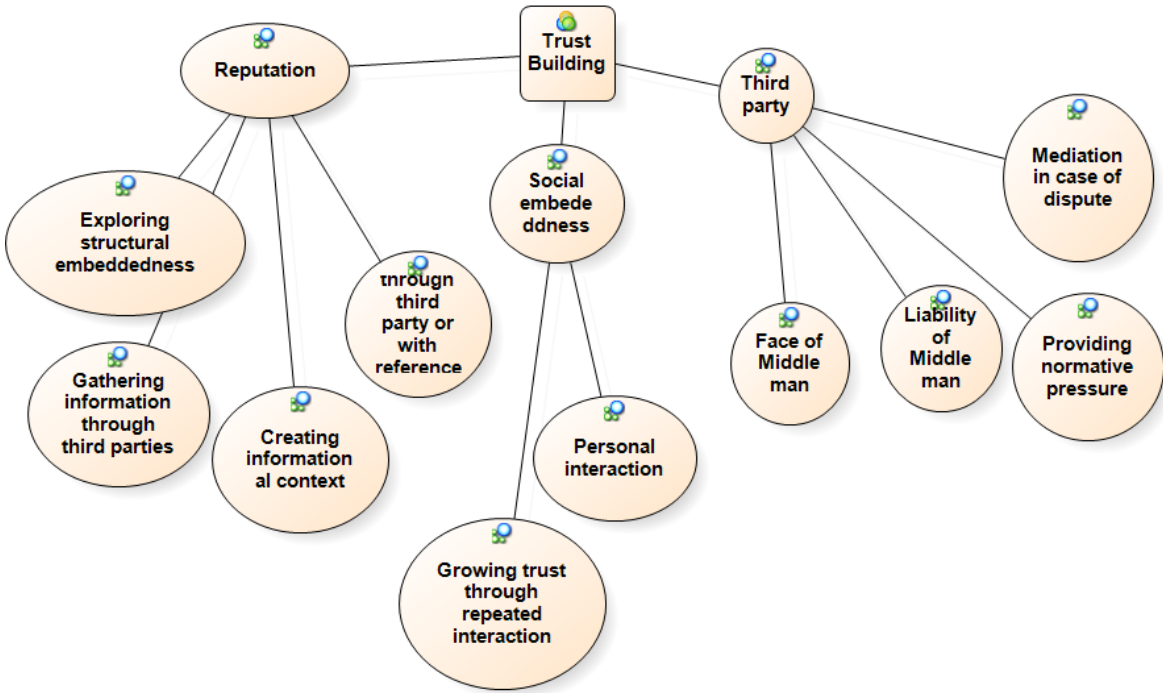
Table 8.7: Social Embeddedness Category

Category	Example of text reference (Interview number)
Growing trust through	<p>I have to experience him a lot of time and without and without taking a lot of risk. (10)</p> <hr/> <p>You did business first time and it was perfect then you start to build trust. Ok. You didn’t cheat him you were honest with him from the beginning. You really did what you said in the contract. People start to know you and start to trust you. (11)</p> <hr/> <p>At the beginning you start with little risk and see how it</p>

Social	repeated interaction	goes, and if that works and you experience that person you will do it again the next time and maybe do a bigger deal. You need to experience that person several times in business. (12)
	Personal interaction	I think it depends on the personal relation, sometimes meet someone at the dinner or at the cafe especially in Jordan you can see a lot of people going to the cafe and play card. So you can build and make a connection there personal connection and the business will start. It is very very important here! Personal meeting I think is very important for a relation (10)
Embeddedness		And again, they will ask, they might invite for dinner, you sit with them, they will have a chat with you, we can tell from the body-language from his voice. (11)
		I have been to their house they have been to my house I have been to their house and they my family I know his kids, we go on holiday together al kinds of things.... (15)

The category “threat of negative information” describes the normative power of reputation in closed networks. Four interviewees have pointed out the devastating effect of negative reputation after defective behaviour in a business-relationship.

Figure 8.2: Trust-Building



8.3.4 Company Size

As four interviewees in group one outlined, interaction based on the institutional arrangement described is considered to be practiced predominantly by small companies, while this pattern seems to be less prevalent in large companies. This aspect provides a differentiated view regarding the institutional setting in Jordan. However as the statements in this category lack coherence and this research is based on a qualitative approach which is insufficient for testing hypotheses, no conclusion can be drawn. While company size was considered to impact the degree of formality of interaction, interviewee 12 as a high ranking manager of a relatively large organisation has revealed highly informal patterns of trust building based on middlepersons. This contradiction cannot be solved as part of this research and requires an investigation by future research.

8.4 Discussion of interviews

8.4.1 Contrasting Sample Groups

The analysis of the interviews of respondents of group one and group two have do not differ regarding the concepts and categories revealed. Both groups have stressed the importance of personal trust and described the same patterns of trust building in in situations in which personal trust is required. Personal trust was described as vital by interviewees of both groups and the categories referring to the role and function of middlepersons has emerged from interviewees of group one and group two. While both sample groups seem to interact on the same institutional base, group one has contributed a differentiated view regarding the relation between organisational size and the application of informal practices. Respondents of group two have not come up with differentiation. Although only interviewees from group one have mentioned this category, consistency is lacking in this aspect as respondents from large organisations in group one have described to operate based on informal institutions.

8.4.2 Discussion of Identified Codes

The interviews have very strongly emphasised the significance of personal trust in business transactions in Jordan as a protection against opportunism and demonstrated the role of third parties in this process of trust-building. As analysed in the previous chapter, personal trust is a very important factor in business transactions and contributes to the success of business-relationships. Although the codified law and legislation in Jordan are considered reliable in general, choosing to settle disputes at a court is considered complicated and slow. Besides the perceived high costs of formal institutions a general distrust against written agreements seems to prevent the use of formal contracts. As was stressed by interviewees, even if a written contract exists it is not perceived as a reliable protection against opportunism. The sentiment that a contract cannot cover all possible risks and loopholes always allow exploiting imperfect contracts has occurred frequently in interviews as explained above. The preference of personal relations and social capital over the use of formal institutions must not automatically interpreted as a compensation for a dysfunctional or unreliable bureaucracy. If established and accepted informal institutions are the dominant *modus operandi* in a sphere of the an economy, utilizing these principles might involve lower transaction costs for actors despite the existence of well developed formal institutions (Williamson, 1993). The statements of interviewees which express a lack of confidence in formal contracts cannot be understood as an evaluation of the legal system in Jordan. These references merely reflect the individual and subjective perception of the relative power of formal contracts versus personal trust, not the absolute quality of the formal judicial system. The perceived inefficiency and lacking reliability of formal institutions might be based on the relatively higher efficiency of informal institutions. These interviews only reflect the relation between the perceived efficiency of formal versus informal institution in Jordan and not the efficiency of formal institutions in Jordan in comparison to other countries. Interviewees from an environment of similar formal

institutions might provide totally different answers simply due to the absence of competing informal institutions.

The category “cultural habit” describes a motive for such economic behaviour which is considering the affective logic of interviewees that no particular reason can be given other than intuition and an emotional preference. This aspect is crucial for the understanding of informal institutions, since any institutional setting can only be successful if it is accepted by participants. The social narrative which is reproducing the role of traditional mechanisms in a collective discourse strengthens the function and acceptance of these institutions. Consequently an institutional framework which is looked at with suspicion and considered necessary but at the same time perceived as something alien or even superimposed might lack credibility and lead to perverse effects. The crowding out effect discussed in chapter three describes the undesired outcomes of a formalisation of economic transactions. Change from informality to formality which is lacking credibility might trigger opportunistic behaviour and defection, if former mechanisms for cooperation are abolished. The emphasis on personalism as a traditional cultural heritage was not brought up by all interviewees and varying degrees of formality were described by participants. Although personal trust must be considered a strong factor in Jordanian business-relations and a culturally determined affinity towards traditional networking was identified, this research does not provide a differentiated picture to distinguish between various spheres of the Jordanian economy. No conclusions can be drawn concerning the role of personal trust in relation to company size, industry type, age of businessperson and ethnicity or regional origin. At this point it must be emphasised that although personal trust in general has emerged as an important concept, the degree to which interviewees put emphasis on personal trust varies. As discussed in chapter two the role of trust can be varying along the scale between formality and informality and must not be

considered a binary concept, Furthermore, the institutional setting might differ between various spheres of a national economy. Since factors like technical complexity, the ability to codify information or number of actors all determine the choice of governance mechanisms and the degree of personalism, the perception of a national culture is misleading and a differentiated approach is required.

The first section of the interviews has very strongly emphasised personal trust as a vital mechanism protecting against opportunism. The aim of these interviews was to identify common patterns of building personal trust, given that it is required. The second section of the interviews, which gave respondents the opportunity to describe how trust emerges, has also brought up very strong categories.

The analysis of the interviews has shown two main categories which are fundamental in the process of creating personal trust in Jordanian business relations. As mentioned in the analysis chapter, the evaluation of a potential actor's reputation within the network is considered an initial but fundamental step to set up a relation. As respondents described, considerable efforts are taken to acquire sufficient information about the trustworthiness of a potential business partner. Gathering information to get an impression of the unfamiliar business-person not only includes hard-facts about previous business-performance and competence, it is also noteworthy that the collection of information about many dimensions of the social background has emerged as a strong category in the interviews. The four categories aggregating into "reputation" all reflect this process of either gathering information or using references before entering a new business-relation. The essence of these categories is the utilisation of social capital of network closure in the process of initiating contacts with unfamiliar actors in a situation in which personal trust is required. As discussed in chapter two the concept of network closure defined by Coleman allows actors in a network to monitor

deviant behaviour and to communicate information about the actions of others. Network closure technically implies a high degree of structural embeddedness of actors which provide sufficient communication channels. While structural embeddedness and network closure are insignificant for the enforcement of formal institutions, this form of social capital is vital for cooperation based on informality and personalism. The detailed review and discussion of institutional literature dealing with structural embeddedness provided in chapter three demonstrated how network closure can be a crucial factor which contributes to collective action in an environment shaped by informal institutions.

The social capital of networks is used in two ways in the stage before a relation is established. As mentioned in the category “gathering information through third parties” connections are used to acquire information through the network. As described above, the trustworthiness of a potential actor is evaluated through information of common contacts. The second aspect of this type of social capital is the establishment of a new business-relation either initiated through a third party or by identifying a third party which is a common contact to both sides. As described in the category “approaching through third party or with reference of third party”, a trustworthy common contact is considered a very helpful aspect to establish a connection in a situation in which personal trust is required. Either by approaching an unfamiliar business-person with a reference of a common middleman or with the active support of that common contact, the relation is based on a setting of structural embeddedness from the beginning. As will be discussed further below, the role of a middleman, either one who gives a reference or who initiates a contact, is the central aspect of this research.

The outstanding importance of structural embeddedness as a contributor to personal trust as it is reflected in the strength of the category “approaching through third party or with reference of third party” is also a narrative cornerstone of conversations between strangers. As

participants emphasised, communication at an initial stage is traditionally evolving around common contacts which are to be identified between two unfamiliar actors. Finding communalities and people that link both parties was described to contribute to personal trust between both sides. Although establishing a relation involving a middleperson was considered an important factor, the role of this actor will be discussed further below, exploring this structural embeddedness is partly considered cultural. Although the information about a person's connectedness was considered a factor providing a degree of security in some cases, in other cases it is the pure narrative that enhances trust by creating a sense of commonness. At this point it must be emphasised again that some interviewees have pointed out that information like family name and regional origin in many cases provides valuable information. Due to the small size of the country and the prevailing social structure it is considered very likely that connections for information gathering can be identified. In any case the exploration of structural embeddedness has emerged as a category which is considered an important part of communication by respondents.

The aspects which were named by interviewees as factors that contribute to personal trust aggregating in the category "reputation" all build on the power of information in closed networks. Either by utilizing an existing network as a monitoring mechanism as described in the category "gathering information through third parties" or by ensuring that cooperation is occurring in an environment of structural embeddedness, the availability of information concerning reputation in closed networks is a crucial aspect of personal trust building at an initial stage of new business-relations. Besides the insight that information for the evaluation of the trustworthiness of an actor is considered a cornerstone of personal trust, a central aspect which has emerged from the interviews is the role of a third party or a middleperson in this process. Respondents described that information is gathered through third parties who might

be a common contact, at a later stage this common contact who provided information might be asked to introduce the two parties or is used as reference. In both scenarios a middleperson or a third party is central in the process of initiating a relation by providing information and by bringing two parties together.

The expressions of interviewees in the categories which aggregate into “third party” are dealing with the role of the middleperson who assisted in initiating a relation, if problems in these relations arise. Social capital is defined as a social structure which protects actors against opportunism and allows collective action through social embeddedness based on personal trust. Structural embeddedness initiated or facilitated by a middleperson has emerged as a strong category of social capital which enhances trust between actors. The discussion of the role of the middleperson, which interviewees described, seeks to identify the expectations of participants concerning the actions of the middleperson which create security in interaction and so allow actors to trust each other.

The strongest aspect that emerged among these categories is “providing normative pressure”. This category describes why and how a middleperson in a relation can provide security for the parties involved. By introducing a new actor and establishing a new relationship between previously unfamiliar businesspersons, an expectation of the other two parties arises that the middleperson would put pressure on one side if expectations are disappointed or one actor chooses to defect. This insight is central since it provides a justification for the process of initiating relations assisted by third parties. The expected intervention of intervention of the middleperson creates trust among participants of that triad and is considered an important condition to enter a risky cooperation. Considering the strong emphasis on personal trust, the expressed lack of confidence in formal institutions and the strength of this concept, the

normative power of triadic trust based on expected pressure of the middleperson has emerged as cornerstone of collective action.

The concept “mediation in case of dispute” is strongly related to the above discussed concept of “providing normative pressure”. In both cases the middleperson is expected to intervene if a conflict occurs within the triad. While in the first category actors would expect the middleperson to intervene on their behalf since one side defected, the mediation category is rather putting emphasis on bringing the disputed parties together, solving the conflict and restoring harmony. The concept of mediation as a mechanism to solve conflicts is deeply rooted not just in Jordanian culture but in most societies of the Arab world. As discussed in chapter two the concept of mediation, which used to be the cornerstone of the traditional Arab institutional framework and which has partly been anticipated by Islamic jurisdiction, is still a central mechanism to solve conflicts in present day Jordan. Chapter two has demonstrated the multidimensionality of the mediation concept in Jordan. While mediation can be of a highly formal character and even be required by law, it is as well a strong informal concept. The statements of respondents in these interviews reflect the informal dimension of mediation in conflicts that occur in business-relationships. These two categories represent the expectations of the role of a middleperson in a triadic relationship, which is considered to intervene by either assisting to settle a conflict or by using its power to provide pressure on one side to live up to promises made earlier. By providing this assurance trust emerges between two unfamiliar parties in an environment with a relatively lower trust in formal than in informal institutions.

The category “liability of middleman” which has emerged from the interviews, although relatively weak, expresses the expectations that a middleperson would even be held liable if a material damage occurs in a business-deal and be expected to compensate for that damage if

the defecting party is not able to do so. In this concept the third party is considered a guarantee for the success of the transaction. The circumstance that this constellation has only been mentioned by three interviewees either might be due to the insignificance of this concept or due to the strength of other informal functions of the middleperson, which have a preventive character. Although actors in a triad might hold the middleperson liable in case of damage in general, the very small number of respondents considering this phenomenon might outline the success of the assurance mechanisms which prevent such a situation in the first place. The structural embeddedness and the implicit availability of the middleperson as a mediator might be considered a “shadow of the future” which successfully restricts opportunistic behaviour among actors in the triad so that a situation in which a middleperson is held liable becomes an unlikely event. Although due to the limited statements by interviewees regarding this category no solid conclusions concerning the significance can be drawn, the apparent implicit expectation that a middleperson will be held liable contributes to a secure setting for cooperation between strangers.

The threat of losing face has emerged as an important constraint against opportunism in a triadic relation initiated by a middleperson. The concept mentioned by interviewees to give someone either a “black face” or a “white face” described the perceived obligation of the parties introduced to each other to not humiliate the broker by disappointing the new business-partner. As respondents described, the middleperson who initiated the new relationship feels the threat of being given a “black face” by defection of one party in the triad. The outstanding role of reputation within a network as part of an informal monitoring mechanism was discussed above. The emphasis which interviewees have put on either the exploration or the establishment of structural embeddedness, as discussed in this chapter, provides a mechanism for the involved parties to communicate information concerning

deviant behaviour of one actor in the triad. Considering the high value of personal reputation in an environment of structural embeddedness and the significance of access to middlepersons in order to establish trust, the threat of being given a “black face” must be considered a strong factor preventing opportunism. Given that actors who enter a relation initiated by a middleperson do have the ability to communicate the failure of a transaction or a recommendation given by the middleperson which lead to disappointing results, the middleperson has a strong incentive to prevent defection of one party. The effects of the threat of losing face and the obligation to give a middleperson a “white face” by living up to commitments, is creating trust within a triadic relationship.

While the categories discussed above have described the function of personal trust as well as patterns how trust can be established through various actions of a middleperson, the role of the newly established dyadic relation and its internal dynamics remain ambiguous. In the discussed concepts the facilitating character of a third party to build trust and the assurance of a triadic relation the focus has been put on the dynamics within a triad and the role of the middleperson. In the concepts aggregating into “social embeddedness” interviewees expressed some expectations concerning their direct relation with a new business-partner if personal trust is required. An aspect that interviewees have considered important in a large number of interviews is “growing trust through repeated interaction”. Starting with little risk and slowly increasing the vulnerability in a business once the initial transaction has been successful and the new business-partner has proven its trustworthiness has emerged as a strategy to build trust. Although embedded in a triadic assurance structure, risk is kept at a minimal level at an initial stage and trust is considered to grow slowly during time. Due to the lack of differentiation among the sample concerning industry-type or the kind of transactions which a respondent is usually dealing with, no conclusions can be drawn if this pattern is a

significant contributor to trust in any type of business and if it is depending on the ability to codify and standardise quality of products or services exchanged. Following theories of commitment relations in insecure environments facing distrust as discussed in chapter three, the choice to minimise risk in transactions is depending on codification and therefore the predictability of quality standards. The expressed requirement to build trust slowly through actions that signal the willingness to cooperate even if embedded in a structure of assurance through triadic governance requires further analysis. The interviews do not reveal if a governance through a middleperson facilitates the initiation of a relationship but requires further trust-building directly between the two affected parties or if this assumption cannot be generalised.

The category “personal interaction” emphasises the expectation of interviewees to strengthen a relationship through social interaction also on the private level. In this relatively weak category respondents described the requirement to maintain and strengthen a business-relationship through common activities. As mentioned in the discussion of “growing trust through repeated interaction” in this category it also not clear if the described interaction is required in any relationship after it has been set up through the assistance of a middleperson.

The aspects of the categories summarised in “social embeddedness” describe dynamics in the newly set and what is expected to foster trust between actors. While the function of a middleperson to initiate a relationship and provide some assurance mechanisms has been identified as a factor contributing to personal trust, the role of dyadic interaction remains ambiguous. Referring to the insights of social network analysis discussed in chapter three the question if two actors cooperating in a setting loosely connected through a middleperson without the requirement to create a strong tie or if a relation is expected to be based on frequent and intense interaction to create social embeddedness, impacts the structure of social

networks. Relations who require elaborate processes to fulfil their function limit the number of actors to interact with. A governance systems based on triadic structures in which it is sufficient for actors to maintain a trustful relation with a middleperson provide the capacity to interact with a significantly larger number of persons than it would be the case in a system based on dyadic trust. As demonstrated in chapter three, governance structures based on personal trust are permanently facing the threat of collapse due to an overexpansion which provides anonymity for free-riders and defectors. If a direct supervision and direct personal trust with a cooperation partner is not required and the middleperson is providing the necessary monitoring and embeddedness, a much larger number of actors can be integrated into a system without the danger of anonymity due to a lack of interaction. Although the concept of triadic governance has emerged as significantly stronger concept than the emphasis on dyadic trust, the relation between both remains unclear at this stage.

As the interviews show, emphasis is put on personal trust in economic transactions in Jordan outlining a high degree of personalism as the base for cooperation. Referring to the formality scale of Etzold discussed in chapter three the scenarios of interaction need to be categorised as informal. Building on this insight it is vital to understand how personal trust is built. As discussed above, the interviews have revealed strong categories regarding the process of trust emergence. Summarising the codes and categories identified through the analysis of the interviews the following model of trust creation in Jordan is proposed.

Prior to any cooperation existing information channels are identified and through common contacts the reputation of potential business partners is assessed. As expressed by interviewees common contacts are searched and the record of past ventures is sought. In chapter three the dimensions of trust capacity and benevolence as proposed by Schoorman (Schoorman, Mayer and Davis, 2007) have discussed distinguishing between trust in an

actor's competence and willingness to act according to an agreement. In this step before entering any kind of cooperation the capacity of potential cooperation partners is assessed as well as the reputation regarding benevolence. The main aspect contributing to the emergence of trust at this stage is the confidence of identifying competent and suitable transaction partners. Although the record of opportunism and reputation of trustworthiness is taken into consideration and definitely a basic conception of an individual's benevolence emerges, capacity is the category of trust central to this process. While negative records regarding benevolence are a knock out criterion for any further interaction, reportedly benevolent behaviour in past transactions with other actors is insufficient for the creation of trust in the benevolence dimension. In chapter three the effect of structural embeddedness on opportunistic behaviour of actors in settings of informal institutions as demonstrated by Yamagishi (2008) was discussed. Taking this effect into consideration, past experiences of cooperative behaviour cannot be transferred into setting with different actors. The type and structure of monitoring by the group has an impact on the choice between defection and cooperation in settings of personalism and informality, limiting the predictability of based on past actions in different groups. A Waseet in this sense serves as an information hub which is expected to set up a relation to a trustworthy and competent cooperation partner.

8.4.4 Protection against opportunism

The aspects of the process of trust emergence described above have focused on the aspect of assessing an actor's trustworthiness. As discussed the gathering of information mainly allows a trustee to draw conclusions regarding a trustor's capacity or competence, referring to Schoorman's (Schoorman, Mayer and Davis, 2007) model of dimensions of trust. Following a process of information gathering through a Waseet and the screening of a potential interaction partners and given sufficient trust in the competence and capacity of the trustor, trust in the

benevolence of an actor needs to be established. Since formal institutions are considered inadequate as exclusive bases for cooperation the risk of opportunistic actions must be dealt with by informal institutions.

While information channels in the network are utilized to gather information about an actor's competence and general trustworthiness prior to any business relation, the awareness of the possibility to communicate defection of an actor provides normative pressure and provides some degree of security to a trustee. Structural embeddedness as social capital described by Coleman (1988) is a major function for trust particularly in the absence of formal institutions. The possibility to spread the information of an actor failing to fulfil a commitment is a vital aspect of informal monitoring and norm enforcement mechanisms. This option for a trustee termed voice by Gould and Fernandez (Gould and Fernandez, 1989) and is contributing to the power function of trustees in cooperation. A trustee lacking communication channels to communicate defection or incompetency and therefore lacking voice is deprived of vital options with a relatively weaker power function than actors to whom voice is available. Embedding transactions into a structure established through *Wasta* gives voice to the trustee.

In order to set up new business relations middle-persons or *Waseets* are contacted in order to gather information about potential interaction partners before actually accepting risk. As described above the process of information gathering through third parties is considered a vital step in the process of trust emergence. In case cooperation takes place the involvement of a *Waset* is considered to contribute to the establishment of trust in two ways. One aspect of trust through triadic governance between trustee, trustor and *Waset* is the implicit normative pressure based on the perceived obligation to not humiliate the *Waset*.

8.4.5 Normative pressure - threat of the black face

One effect interviewees described as a significant protection against opportunism is the threat that the Waseet would lose face or “be given a black face” in the event of defection by the trustee. A trustee who has been given a good reference by the Waseet and so gains from the Waseet’s trustworthiness and credibility, is under observation by the Waseet and experiences normative pressure to live up to the commitment against the trustor. The effect of peer pressure and monitoring based social structure on norm enforcement as described in previous research (Blau, 2008; Coleman, 1988; Yamagishi 2008) here is expressed in the indigenous Jordanian cultural narrative. The effect as such is neither exclusive to Jordanian culture nor to Wasta settings but is important to emphasise, since it emerged as a factor significant for the emergence of trust. The expressions of black face and white face are important to understand culture-specific processes of trust building and norm enforcement based on indigenous informal institutions.

8.4.6 Mediator and intervention – Wasata

The second effect contributing to the emergence of trust through Wasta relations is the availability of a mediator in case of a conflict in the relation or defection of the trustee. The Waseet who contributed to set up a new relation is to a certain degree considered responsible for the actions of the trustee. In case the trustee does not provide a good or service in the way agreed on, the trustee is expected to intervene and communicate the discontent to the trustee. The Waseet provides pressure towards the trustee in order to comply with agreements. In case of a conflict between trustor and trustee regarding the business relation, both parties would expect the Waseet to intervene as a mediator to settle the dispute. Both concepts and categories of intervention and mediation are interrelated and overlapping. Nevertheless the concept of mediation through a Waseet, who helped to establish a business relation, is central

to this model of trust creation and outlines the importance of this indigenous institution in the process of trust emergence. While the expectation of some responsibility of a common contact who connected two previously unfamiliar actors is probably universal and found in any culture, it is the explicit emphasis put on this effect regarding the establishment of required personal trust and the cultural tradition of mediation deeply rooted in Jordanian society, that make this aspect the backbone of informal institutions in Jordan. Wasta as mediation or the process of steering two parties towards the middle has been a central aspect of social organisation in Arab societies since pre-Islamic times and has been anticipated by formalised institutions and modern judicial systems. The significance of Wasta and its historical development and role in the creation of modern Jordan was discussed in chapter two. The model there presented analysed the dimensions of Wasta based on publications dealing with this social phenomenon. While the role of Wasta as an institution based on mediation on the formal level dealt with by previous research (Cunningham and Sarayrah, 1993; Al-Rahami, 2008b) the informal mediation dimension and its role as a trust creation mechanism has to date not been analysed. The interviews carried out as part of this research have revealed a trust creation process of which mediation through Wasta is a central aspect.

The availability of a mediator intervening in case of a conflict and providing normative pressure on both parties limits costs of monitoring and enforcement and so overall transaction costs. These aspects limiting the risk for a trustor to enter cooperation allow trust to emerge. Knowing that the Waseet not only facilitates to set up a new business relation but also carries some responsibilities at a later stage to act in case of defection, Wasta functions as a shadow of the future for both trustor and trustee. As transaction costs for norm enforcement based on formal institutions are considered relatively more expensive and less reliable than informal Wasta based institutions, trust emerges through the availability of this indigenous informal

institution. As discussed, the information gathering process prior to any cooperation mainly allows trust to emerge in the capacity dimension. The overall capacity or competence of the trustee is assessed, conclusions regarding trustworthiness or benevolence can only be drawn to a limited degree. The main factor contributing to trust in the benevolence of the trustee's actions is the availability of a reliable Wasta process providing normative pressure to avoid defection. While structural embeddedness serves a normative function irrespective of culture, in Jordanian business trust explicitly emerges through the availability of indigenous enforcement mechanisms deeply engrained in local culture and traditions. Wasta is not simply the social structure of a triad but an institution implying rules, values and procedures for mediation in a dispute whose availability limits the risk of cooperation and allows trust to emerge. It is a significant factor in business relation between two unfamiliar actors.

The effects described above are based on two important premises 1. The Waseet must be bound by an indigenous set of values consistent with the expectations of the other actors in the Wasta relations. A Waseet who is immune to a loss of face and damaged reputation is unlikely to provide the required normative pressure. Traditionally the role of the Waseet has been considered an honour and has been carried out by reputable individuals of the community. Individual power of the Waseet determines the degree to which a triadic relation can provide protection against opportunism. A strong middleperson can enforce the violated agreements between trustor and trustee. Bachmann (2001) introduced the relation between trust and power and demonstrated the role of power in settings lacking a reliable and predictable institutional environment.

8.4.7 Information Assessment Lacking Third Party.

Structural embeddedness is an antecedent of trust in Jordanian business. The embeddedness of a relation into an existing network provides monitoring, ability to communicate defection and

peer pressure as a protection against opportunism. If a new relationship with a potential business partner is sought, common contacts provide background information regarding the trustworthiness and facilitate to connect the two parties. With the expectation of intervention as a mediator the third party or Waseet provides security to the trustee. For the scenario of two unfamiliar actors interaction with a previously established embeddedness into a triadic structure, background information of the counterpart is assessed allowing to put the person into a context and potentially identify common contacts. The size of the country as well as the prevalent tribal structure in Jordan allows individuals to identify potential connections or to assess the background through a few key facts. Interviewees pointed out that through family name and regional origin two strangers are most likely to identify a common contact.

This process is an antecedent of trust in three ways. 1. If networks of individuals are overlapping and meaningful common contacts are identified, structural embeddedness provides normative pressure and protections against opportunism. 2. Background information gives individuals an impression of the credibility and trustworthiness of an alien actor. Interviewees outlined that tribal or regional context are used to assess the reputation and credibility at least to a minimal degree. 3. Beyond the concrete necessity to assess network structure and embeddedness as well as social background in order to gather information, this habit is considered cultural and part of the local tradition.

Assessing commonalities between strangers fosters the strength of a relationship and is an important base of trust. One interviewee stated “In our culture we start conversation, we try make connections”. Talking about common tribal ancestors or the glorious history of the tribe emphasises the appreciation of the counterpart and the commonalities which shall be a base for a good relation in the future. Commonalities are not required to be based on hard facts or existing persons, the focus is on outlining a shared identity and emphasising a mood of

togetherness. One interviewee summarised it “if we find we have absolutely no common base, then we talk about falafel in old Amman and how good it used to be”. The ability to tune into the culture or milieu specific narrative to gain trust of unfamiliar actors is a type of social capital, habitus, as defined by Bourdieu (1986) discussed in chapter three. The practice of identifying one’s familial or tribal background and assessing a common base serves as an antecedent of trust beyond the mere exploration of structural embeddedness and network closure. Interviews have revealed the culture-specific narrative of this practice in the process of trust building.

8.5 New Insights from Empirical Data

The empirical data gathered for this research have revealed a pattern of trust building in Jordanian business. As discussed the Jordanian model of trust building to a large degree rests on the normative power of structural embeddedness in triadic relations, the expectation of the Waseet to intervene and the cultural narrative of regional traditions such as mediation, reputation and the threat of the black face. Interviews have clearly emphasised the importance of Wasta as an antecedent of trust in Jordanian business. Although previous publications have dealt with the role of Wasta in Jordan (Cunningham and Sarayah, 1993; Loewe, 2007) this research provides new insights into the relation between trust and Wasta. The interviews have demonstrated that trust, given it is required, is considered most likely to emerge if a third party or a Waseet establishes a relation and remains available to both parties to intervene or mediate in case of a conflict. Referring to Cunningham and Sarayah’s (1993) concepts of distinction between intercessory Wasta and mediation Wasta, both concepts are intertwined in the process of trust building and cannot be clearly distinguished. Intercession and mediation clearly belong together and the availability of a mediator looms as the shadow of the future already in the process of Intercession allowing trust to emerge. Mediation as a backbone of

social organisation in traditional Arab cultures is considered a vital normative function and cannot be distinguished from the intercession process. While Cunningham and Sarayah have approached Wasta as a phenomenon with potentially beneficial dimension, connotations in the academic discourse are predominantly negative (Schlumberger, 2004; Loewe, 2007). The stigmatisation of intercessory Wasta as harmful and mediation Wasta as beneficial is not consistent and does not reflect reality of social practice. In a later article Cunningham and Sarayah (1994) revise their initial conceptualisation and consider intercessory Wasta as potentially beneficial if mediation is part of intercession and that there is no clear either/or. Although Cunningham and Sarayah provide a basic approach towards the intertwining relation between intercessory and mediation Wasta and the beneficial contribution as a mechanism for social organisation, no clear typology of Wasta and trust is developed. A vital aspect of the insights gained from this research is the relevance of the phenomenon. This research not only explains the structure of an existing phenomenon but reveals through a grounded theory approach that the described process of trust building is a significant mode of interaction. Since trust building mechanisms based on informal institutions can take many forms the patterns discussed have emerged as the preferred structure of social organisation. It not only describes one of many possible paths but demonstrates the significance of Wasta. No previous research has investigated in antecedents of trust in Jordanian business and revealed Wasta as a core concept in this process.

The empirical research of this investigation provides new insights on Wasta as facilitator of trust in three ways.

1. Revealing Wasta as the dominant antecedent of personal trust.
2. Providing a model of Wasta based trust creation.

3. Outlining the relation between mediation Wasta and intercession Wasta in trust building.

8.6. Typology of Wasta-based Governance Models

The discussion below will connect insights gained from the analysis of empirical data to concepts of Wasta reviewed in chapter two and to the game-theoretic approach of triadic cooperation discussed in chapter three. The aim of this chapter is to provide a detailed analysis of the dynamics specific to social relations in a triad and to provide a model of triadic governance and an abstract and formalized typology of Wasta in order to distinguish between situations in which Wasta can be beneficial or even crucial for collective action and cases in which Wasta is clearly a harmful constellation.

As discussed in chapter three the formalisation of institutions and transactions can trigger opportunistic behaviour of actors and in social systems where cooperation is based on face to face monitoring and sanctioning through peer-pressure, the eradication of personal interaction may cause a collapse of contribution to collective goods and have disastrous effects. Particularly in developing countries the good intentions of introducing universal and reliable formal institutions have in some cases led to perverse results of actually crowding out an existing base of social interaction while at the same time failing to establish an alternative framework for cooperation. In the case of Wasta in Jordan efforts are made to eradicate structures that are perceived unfair and lead to a dangerous marginalisation of parts of the society. As described in chapter five the modern state of Jordan is a product of a fine-tuned consensus and a balanced power-structure that partly involves Wasta. Apart from this stabilising function on the macro-level, Wasta might contribute to social stability on the micro-level by providing a mechanism to build trust and enforce norms, although this assumption still lacks a sufficient empirical base. In order to prevent a crowding-out effect and a collapse of social capital through efforts to eradicate Wasta, a precise typology of

Wasta-constellations is required to clearly define what makes Wasta harmful and how Wasta can be beneficial. The basic conceptualization of Wasta is to approach it as a triadic relationship and analyze the dynamics within triads and refer them to concrete situations that occur in Wasta-relations.

The concepts and possible constellations in triadic relations discussed above, provide a framework and a typology to analyse Wasta and to distinguish clearly between different types of Wasta. The analysis of Wasta based on these theoretical concepts, will focus on intercessory Wasta and attempt to identify constellations when and how intercessory Wasta can be a beneficial trust-building mechanism, rather than dealing with Wasta classified as mediation Wasta. Although this categorisation of Wasta is commonly used in literature since it was introduced by Cunningham and Sarayah (1993) the distinction is not necessarily useful from an institutional perspective, as explained in a modified version of Cunningham and Sarayah`s model (Cunningham, 1994). While mediation Wasta clearly exists as a beneficial category, in intercessory Wasta no clear either/or exists, since in beneficial intercessory Wasta the middleman might be expected to intervene as a mediator (Cunningham, 1994; El-Said and McDonald, 2009).

8.6.1 Partial Modernisation and Moral Hazard in Wasta Relations

Chapter five discussed the institutional framework out of which Wasta has developed, and how Wasta has played an important and stabilizing and unambiguously positive role in both pre-modern and modern Jordanian society, both formally and informally. Embedded into a system of traditional check and balance mechanisms that prevented a broker from abusing its asymmetric power-position, Wasta has been a cornerstone of social organization in tribal societies on the Arab peninsula. It has been demonstrated how Wasta has developed towards the phenomenon that dominates the perception of the term Wasta today. The

institutionalization of power-asymmetries and the diluting power of traditional ethical codes in an increasingly modernizing and formalized society have dramatically changed the function and structure of Wasta in present-day Jordan. While chapter five provided an overview of the historical development of Wasta and its role, chapter eight has developed approaches to analyse Wasta on an abstract level and define the circumstances under which Wasta can be harmful and the conditions under which Wasta can potentially play a beneficial role. By applying a sociometric perspective of social network analysis and the logic of game theory, the following chapter aims to build a model to distinguish between the many dimensions of Wasta. Considering the efforts to fight against corruption and nepotism in Jordan on the one hand and the danger of crowding out positive and important institutions on the other hand requires a typology that clearly defines the circumstances that turn Wasta into a negative phenomenon.

The core problem of all Wasta-relations is the abuse of power by the broker either by charging for granting access to resources or by abusing the privileged gatekeeper position to provide assistance to people to get into jobs for which in many cases the applicants are not qualified. The first case is outright corruption which harms all parties involved but the broker. From an ethical perspective the second case is more complicated since the broker as an agent of a principal does not directly benefit from such an action. As described by Loewe familial ties and obligations often put considerable pressure on brokers who have the power to assist in getting admirable jobs for members of their own family or tribe (Loewe, 2007). A Waseet, that successfully provides access to the desired resource, gains status and reputation within the peer-group. By bringing unqualified applicants into organisations through personal contacts is harming the organization and benefits two parties on the expenses of a third party.

A first distinction needs to be made in order to identify situations in which Wasta leads to undesirable outcomes. The scenario described above in which a broker assists in getting into a position is unproblematic if the Waseet acts on his own behalf and as a principal rather than an agent, gaining individually by granting access to resources of a third party without facing consequences for the suboptimal outcome of decisions. Considering the long tradition of Wasta and the fundamental role it has played as a mechanism that contributed to social stability, as discussed in chapter above, from an institutional perspective it seems illogic that an institution that is obviously harmful could survive as a dominant social force over a considerable period of time. Cunningham and Sarayah have provided the distinction between intercessory Wasta and mediation Wasta. While the above described situation can clearly be classified as intercessory Wasta, the distinction is not in every case useful to identify harmful or beneficial Wasta. In traditional Wasta, the mediation aspect was part of an intercession process and no real either/or existed (Cunningham, 1994). Intercessory Wasta provided security for two parties, since a Waseet could serve as a mediator in a dispute or put normative pressure on one party in the event of defection. In traditional intercessory Wasta all three parties gained, trustor and trustee by an interaction secured through the traditional institution of mediation, which reduced transaction costs, and the Waseet through enhanced status and reputation. The factor that turns Wasta into a harmful phenomenon is not the distinction between intercession and mediation, but the absence of checks and balance mechanisms, which limit the power of a broker and prevent abuse of power.

A fundamentally important aspect of intercessory Wasta in order to contribute positively is that all parties join such an interaction voluntarily and have the opportunity to terminate it if expectations are disappointed. Referring to the model provided above, this means that an actor has the option of exit. Wasta and explicitly intercessory Wasta as well, are unproblematic

from an ethical point of view if all parties involved enter this relationship with an expectation of mutual cooperation and can exit the arrangement in the event of unilateral defection. Intercessory Wasta becomes problematic if it occurs in a setting that does not allow the exploited party to exit the arrangement.

As discussed above voice and the possibility to communicate opportunistic behaviour of one party is besides the exit option another important sanctioning mechanism in networks based on personalism. Serving as a Waseet is considered an honour and enhances reputation within the relevant community. In a framework in which normative pressure of a middleman contributes to build personal trust in a collective action dilemma, the trustor becomes vulnerable to the actions of the broker. If such a constellation is embedded into a cultural environment in which the broker fears a loss of status and reputation in the event of unsuccessful brokerage or mediation and in which a trustor has the possibility to spread that information, a system of protection against the abuse of an asymmetric power structure is in operation. This used to be the case in traditional Wasta, where communication has played a central role. With traditional mechanisms of participation like *diwnyiah* and *shura* that provided platforms for communication and sharing of information among members of a community a Waseet had to defend a reputation in a culture of honour. Traditionally a Waseet gained status if his or her information could help to bring two parties together that were seeking whatever the other party had to offer, either a job or a business opportunity. Even in the case if intercessory Wasta was used to get access to an employment opportunity, in traditional Wasta the Waseet used to act to a certain degree as a guarantee for the trustee to be trustworthy and helped to reduce transaction costs for all parties involved. A Waseet structurally embedded in a network in which communication takes place would not run the risk of recommending an actor whose misbehaviour could seriously damage the reputation of

the broker. This structural embeddedness which requires a certain degree of network closure gives voice to the trustor and protects against opportunistic behaviour of trustee and broker.

The perception of Wasta in the modern discourse is dominated by power abuse and practices like nepotism and cronyism that provide access to jobs for people who are not qualified but have the right connections. Wasta is considered a way how to get things that one does not deserve or has no access to, either by knowing the right people or in some cases even through outright bribery. Wasta can provide access to Universities, government jobs or get bureaucratic procedures done quicker or less complicated than usual. This does not only create discontent among those lacking Wasta themselves, but also harms the entire society if agents of the public interest use a power-position to pursue private interests. A Waset providing access to a government job for an unqualified applicant individually gains status but harms the public sector. Smith et al. described a typical Wasta scenario where the parents of an applicant with qualifications insufficient for entering the University contact an influential person at the University to bypass formal procedures and gain access to the University (Smith et al., 2012). Similar scenarios occur in hiring procedures for public sector jobs. Having good Wasta helps getting hired at the public administration or other government institutions.

Considering the initially positive role of Wasta, explanations are required concerning how an institution that used to serve as an important mechanism to build personal trust and has grown out of the logic of mediation has developed such a strong nepotism and cronyism dimension. The main factor is a partial modernisation of interaction modes that includes formalisation and institutionalisation of power structures. While parts of social organisation have applied the logic of modernity, partly introduced by alien powers, other spheres of society are still organised according to a more traditional institutional arrangement that includes a significant degree of personalism as a normative force in human interaction. Institutions that dominate

social structure can vary according to their degree of formalism and do not have to be either strictly formal or strictly based on personalism. The stages of formalism were discussed in chapter three and are shown in the institutional formality scale in table 3.1. While each society can develop an idiosyncratic set of institutions with varying degrees of formality, problems arise if formality becomes the mode of interaction only for a fraction of economic actors and not the dominant rule of the game according to which interaction is organised. If modern organisations like Universities, government authorities or corporations are based on formal principles but the social environment in which they are located is to a large degree shaped by informal institutions, situations of moral hazard can emerge. Initially Wasta is a triadic constellation consisting of two actors and a broker who steers two parties to the middle. In modern Wasta scenarios as in the case analysed by Smith it is one party asking for the favour of another party which is considered intercessory Wasta although the social relationship is just dyadic and lacking a third party (Smith et al., 2012).

Applying a typology of Wasta and considering it a constellation consisting of a trustee, a broker and a trustor, the University can be considered the trusting third party. In this case the trustor is a highly formal and impersonal actor that can neither terminate the relationship nor communicate discontent in the network; both are crucial options as protection against opportunism as discussed above. In the case of intercessory Wasta where one party, usually the trustor, is a formalised organisation and the broker and the trustee act according to the logic of informal institutions, a situation emerges which lacks a governance structure and allows opportunistic behaviour that harms the trustor. If actors from a setting where informal institutions provide the most important normative pressure operate in a constellation where these control mechanisms are absent and if these actors even lack any commitment towards a formal organisation, defection becomes the dominant strategy for this interaction. Referring to

the aim of this chapter to contribute to a typology of Wasta that allows a better distinction between beneficial and harmful Wasta and a better understanding of Wasta processes; intercessory Wasta becomes harmful if one actor, the trustor, is a formalised organisation. Whereas in traditional Wasta that includes three persons as actors or in some cases groups of persons but in any case actors embedded in an institutional systems with a high degree of personalism, the introduction of a formal actor leads a moral hazard in a principal agent situation where the agent, in this case the broker, can gain individual status on the expense of the principal on whose behalf the agent is supposed to act. A formal actor lacks the opportunity of voice and exit and so is deprived of protection against opportunism available to actors in traditional Wasta. This insight contributes to the understanding under which circumstances intercessory Wasta is a harmful practice. As discussed above, Cunningham (1994) emphasised that in traditional Wasta no clear either/or existed in terms of categorisation of mediation and intercessory Wasta. The normative pressure of the broker and expectation that the broker would help to mediate and settle disputes provided security in an intercession process and was considered an integral part of intercessory Wasta. Under these circumstances intercessory Wasta can fulfil an important trust-building function since all actors are embedded in a system of reputation mechanisms that protect against defection and are presumed to participate voluntarily and act as agents on their own behalf. It is the combination of intercessory Wasta and an actor that is asymmetrically vulnerable to the actions of the other two players, as it is the case of a formal organisation.

Besides an asymmetric formalisation and a conflict of the logic of institutional regimes of formality and informality, the power structure of the broker must be also considered a factor that can turn intercessory Wasta into a harmful phenomenon. As already demonstrated several times the exit option is of considerable importance to a trustor. In case that a broker holds in a

network a position as a gatekeeper so exclusive that it creates almost a brokerage monopoly, the broker can impose conditions of the cooperation on other actors. Corruption is one aspect of Wasta in many modern Arab societies. Among the many faces of Wasta, brokers that charge for their service and deny access to resources if the payment of a bribe is refused, mark a particular harmful and unethical form of Wasta. This type of Wasta occurs mainly in interactions between individuals and public authorities or in some cases large companies. This type of Wasta helps to overcome rigidities of bureaucracies, speed up formal processes or gain access to services otherwise unattainable. Cunningham and Sarayah (1993) have described the prevalence of this practice particularly in relation to small services like government permissions, driving licenses or other certificates. Paying a Waseet can avoid unnecessary hassle and provide a shortcut to the desired service. In this version of Wasta the broker cannot be circumvented and can gain directly and materially from the abuse of his or her powerful position. But not only on the micro level also on the macro level are brokers controlling access to resources. Political Wasta and the role political powerful persons acting as Waseets performing intercessory Wasta is a serious topic in Jordan. Individuals holding an influential position in the political system are expected to support their kin people and provide preferential access to jobs and resources.

As described in the section dealing with the historical background of the institutional environment in Jordan, securing loyalty by providing privileges to powerful actors, in most case tribal leaders, was a major strategy of colonial powers and local nation-building policies. The integration of existing power bases through this strategy created strong gatekeeper that controlled the access to resources provided by political powers in Transjordan and Jordan. During the times of the Emirate under Emir Abdullah individual citizen from the Bedouin population in Jordan, and also in colonial times before the creation of a national entity, had to

rely on tribal representatives to interact with or receive benefits from a government. It has been a core element of the young Jordanian state to create a consensus among the tribes of the region and gain support for the new polity by providing political participation and exclusive access to power. The foundation of an independent modern Jordanian state was built on an institutionalisation of a fine-tuned power structure that guaranteed stability by integrating the relevant political stakeholders. In modern Jordan the alliance partners of King Abdullah received an institutional guarantee for their powerful positions (Alon, 2007). As described above a certain number of seats in the parliament were reserved for sheikhs of certain tribes, the same applies to posts in the government. This policy on the one hand provided stability but on the other hand created the base for a system of nepotism and cronyism. The institutionalisation of some gatekeeper position provided asymmetric power to some actors and allowed them to abuse their power. A broker whose position in the network is exclusive and guaranteed does not have to fear a consequence if power is abused, which is creating a moral hazard.

From a social network perspective the exclusivity of a brokerage position is assessed by the centrality of the position that an actor has within a network. Referring to the concept of brokerage power in networks explained above, the power of a broker increases the less alternative paths two actors have to interact other than through the broker available. An institutionalisation of a brokerage role that makes the broker exclusive and indispensable contributes to the brokerage power of an actor. In an extreme case in which a broker has the highest possible degree of brokerage power all social ties in a network are connected with the broker and alternative connections are not possible since the role of the broker is exclusive and institutionalised. This has two effects on governance in such networks. The exclusivity of the role of a broker reduces the possibility of other actors to exit such a constellation if a

broker abuses the power and expectations are disappointed. As demonstrated above the option to exit cooperation can serve as a protection against opportunism. An actor with no other option than relying on the brokerage service of another actor becomes vulnerable to actions of the broker. A second effect of high brokerage power and network centrality is the lack of network closure and structural embeddedness. Actors that are poorly connected have no channel for communication and lack the option of voice if the broker is the only node bridging a structural hole in the network. The role of voice as a protection against opportunism in networks based on informal institutions was discussed previously in this chapter. High brokerage power based on an institutionalised broker position in a structural hole of a network deprives other actors of the options of voice and exit and limits their power. Given the important role of communication and reputation in traditional Wasta, a broker that is lacking structural embeddedness can operate outside a context of traditional mechanisms to control power.

As demonstrated above the creation of the modern Jordanian state was based on secured loyalties through privileged access to power. This institutionalisation of power structures has created strong brokers in the political sphere that could act as Waseets and carry out Wasta but suddenly without traditional check and balance systems of communication, honour and competition for power among leaders. At this point it is by no means argued that tribal leaders of the early days of modern Jordan automatically lost their sense of honour and acted unethically against the interest of their people simply because they had the power to do so, the aim is to demonstrate the structural roots of the current perception of Wasta.

In both cases of intercessory Wasta either a civil servant taking bribes for making procedures easier or the political influential sheikh providing access to public resources for his cronies,

the institutionalisation of an exclusive brokerage position in a structural hole significantly contributes to bargaining power of the Waseet.

Summarising the effects of formalisation and institutionalisation on intercessory Wasta constellations, two effects can be identified that could contribute to an understanding under which circumstances Wasta becomes a harmful practice. The formalisation of one actor in a triad denies this actor the possibility to exit and to communicate discontent; it makes this actor vulnerable to the actions of the broker and the trustee. The institutionalisation of an exclusive and important broker in a structural hole of a network who holds a position that cannot be circumvented does not allow choosing another broker and reduces the possibility of exit and a lack of alternative paths prohibits communication in the absence of network closure.

In most descriptions of Wasta the core problem is an unfair distribution of resources and access to jobs or universities. Besides the many other faces that Wasta can have, cronyism is a central aspect of most case studies about Wasta. Referring to the two concepts of formalisation and institutionalisation introduced previously and considering the case of Wasta described by Smith, which was discussed above, as representative for intercessory Wasta a combination of formalisation and institutionalisation can be identified. The trustor, in this case a University, is a formal organisation and the broker holds an institutionalised position that provides power. Intercessory Wasta taking place in such a setting is lacking the necessary control mechanisms and becomes the kind of undesired Wasta which is so prevalent and complained about at the same time in Jordan today. The central argument of this theoretical discussion is to demonstrate that it is not intercessory Wasta as such that is harmful but a lack of checks and balances. If intercessory Wasta occurs in an environment lacking traditional governance mechanisms where the logic of informality and customary behaviour clashes with structures that require formal institutions, problems arise. At this stage it is important to

emphasise again the stabilizing role of intercessory Wasta if its aim is to have a mediator and a trust building broker to facilitate collective action between strangers. The fact that mediation dimension is a part of traditional intercessory Wasta makes the distinction between mediation and intercession useless if a definition of harmful and beneficial Wasta is required.

The concepts of formalisation and institutionalisation in combination with personalism in triads developed and discussed in this chapter apply for a better understanding a one-dimensional conception of intercessory Wasta which is derived from literature. Given the complexity and multidimensional character and the large variety of forms that Wasta can take, the model developed cannot explain dynamics in all kinds of Wasta relations. The model approaches problematic dimensions of intercessory Wasta and attempts to provide an explanation by isolating and abstracting factors which potentially contribute to negative dynamics in Wasta relations.

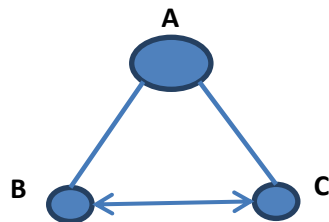
8.6.2 Wasta and Coalitions

As described in chapter three the dynamics of cooperation and defection in triadic relations fundamentally differ from those in dyadic relations. Complexity increases exponentially since the choice between cooperation and defection exists in three relations instead of just one and in any case has an impact on the remaining two relations. Assuming that a Wasta relationship is supposed to establish or re-establish trust between two parties through the help of a mediator, the desired outcome is cooperation between trustor and trustee. While in a dyadic relation, cooperation is the desired outcome in any case if trust is to be established, cooperation between trustee and broker can effectively be a defection in the trustor-trustee relationship. This strategy is called alliance formation in triads and was discussed in detail above. The application of this approach to analyse Wasta contributes to an understanding of what makes a beneficial Wasta relation successful and provides a base for further

investigation. While the discussion on the effects of formalisation and institutionalisation of actors demonstrated the necessity for Wasta relations to be embedded into an institutional environment compatible with the logic of informality and personalism, the perspective of alliance formation assesses structural conditions under which the desired cooperation can be achieved irrespective of the type of actor. In a setting of governance based on personalism where actors in a Wasta relationship can draw on mechanisms to defend themselves against opportunism as it is the case in traditional Wasta, power must be distributed in a way that a trustor does not have to fear to be cheated by the broker and the trustee. Referring to the model of alliances and trust in triads by Caplow (1959) a Waseet must have the power to influence and put pressure on trustor and trustee, which means that the Waseet is the most powerful actor in the triad, but as experiments suggest a too powerful Waseet is counterproductive.

In experimental settings where the power of the broker was larger than the power of the other two actors combined, no cooperation occurred. Assuming that Wasta is supposed to create trust in an environment of uncertainty actors make themselves asymmetrically vulnerable to the actions of the broker. Scenarios of power abuse in Wasta by the broker were discussed in previous chapters. A power distribution where a Waseet can unilaterally dominate both trustor and trustee has the option to play divide and rule, choose to form a coalition with any of the players and exploit the brokerage position. Under experimental conditions the setting in which the desired cooperation in a triad is most likely to occur is where the middleman is more powerful than the other two actors but less powerful than the other two actors combined and trustor and trustee are equally powerful which can be summarised by the formula : $A > B$; $B=C$; $A < (B+C)$. This constellation is visualised in the figure below.

Figure 8.3: Power Constellation Allowing Triadic Governance

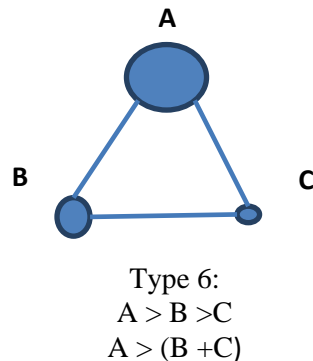


Type 2:
 $A > B$
 $B = C$
 $A < (B+C)$

Source: Gould and Fernandez (1989)

This perspective can be applied to analyse some Wasta scenarios already presented above. In the case of intercessory Wasta, where a University applicant is seeking support from a Waseet to circumvent formal regulations, this constellation can be considered cooperation or an alliance between the applicant and the Waseet. This type of Wasta which effectively hurts the third party is based on a power asymmetry. The Waseet apparently has the power to make decisions that violate rules. Instead of providing security and reducing transaction costs to enable cooperation and facilitate collective action between B and C, a cooperation is established between B and A to the disadvantage of C. In this case the formalisation of actor C and the resulting lack of voice and exit significantly contribute to this power asymmetry in the triad.

Figure 8.4: Power Constellation Allowing Abuse by Broker



Source: Gould and Fernandez (1989)

In the type of Wasta that is supposed to build new relations of trust or help to re-establish trust where a dispute has destroyed a relationship, cooperation between B and C is the expected outcome. The power of A, the Waseet, is supposed to provide the required normative pressure on the trustee to behave according to an agreement but B, the trustor, requires sufficient power to defend against an alliance between Waseet and trustee.

The negative perception of intercessory Wasta is based on the core problem of an alliance formation between two actors that hurt the trustee instead of providing the trust required for cooperation between trustor and trustee. Since institutions are supposed to protect against opportunism and provide a base for cooperation, in the case of Wasta the establishment cooperation between two parties is not sufficient to be considered beneficial Wasta. To determine if a Wasta relationship is potentially beneficial or harmful it must be distinguished between which parties a cooperation occurs.

This discussion deals with an abstract definition of power. It is following the logic of game theory based on assumptions that actors are seeking to dominate other actors if they have the power to do so and applying insights from experimental research which are derived from artificial interactions in a laboratory lacking the dynamics and complexities of real social relationships. The abstraction of trust and power in triadic relationships nevertheless a typology to structure and better define what Wasta is and what exactly the problem in Wasta relations is. Further research needs to investigate what defines power in Wasta. A power function of Wasta must be based on the logic of informal institutions. The most important normative forces are reputation and honour. . At this point it is important to emphasise again that power functions of brokers and trustees are different from the power functions of trustors. Environments that allow anonymity and deviant behaviour due to a lack of structural embeddedness and social capital as network closure contribute to the individual power of trustees and brokers but reduce the power of trustors. Initial suggestions for the assessment of factors in power functions were made above. Sociometric factors like structural embeddedness and other conditions like formalisation and institutionalisation that influence the voice and exit options are expected to impact the power functions of actors. Besides these structural conditions which are considered social capital and whose role in collective action formation in informal settings was discussed in chapter three and visualised in 3.6, the broker must be able to put normative pressure on the trustee to be qualified as a Waseet. By definition actors in formal settings cannot draw on the power of formal institutions but must rely on interpersonal agreements, which requires the power of charismatic authority. Social capital and structural embeddedness alone are insufficient for serving as a Waseet, more factors of an individual power function need to be assessed. What makes a person powerful in a society is culture-specific. In order to understand the role of Wasta in collective action

formation and as an institution in organisations it needs to be assessed what exactly contributes to the power of a Waseet.

At this point it is vital to emphasise again the effect that is supposed to provide normative pressure in Wasta and supports the enforcement of norms, rules and agreements. Models assessing the structural embeddedness of actors describe the power of an actor to communicate and focus on the effects of network closure and reputation mechanisms. Since this is the fundamental base of informal institutions and due to the absence of a formalised third party, informal institutions are also considered self-enforcing institutions. In the case of Wasta the normative pressure of reputation in closed networks is only one aspect. As the model of trust building derived from empirical data and literature suggests, mediation is central to any type of Wasta that is supposed to build personal trust. Since mediation is an active intervention of a broker, structural embeddedness of actors alone is not sufficiently predicting the normative power of a triadic relationship. The personal power to influence and convince other actors to comply with arrangements is a central factor of a power function of mediators in Wasta. Considering the informal aspect of trust building through Wasta a combination of individual factors and structural sociometric factors contribute to an actor's power.

Besides the structural and personal power that determine an actor's power function, individual appreciation of the relation which is summarised as an actor's utility function also determines the choice of strategy in a game. As demonstrated above, cooperation and a relation are valued differently by actors depending on their time orientation. Long term orientation considers future actions and might prevent defection since trust must not be destroyed, while an actor with short term orientation has the tendency to gain from defection since trust is not essential for future actions. In order to understand dynamics in Wasta relations and to identify

factors that determine the success of Wasta in trust building processes, utility functions and in particular time orientations of actors need to be assessed. Since in traditional Wasta a long term orientation and an interest of actors to maintain relations and good reputation over a long period of time, Wasta seems to be increasingly shaped by a short-term orientation. !!!!! As one interviewee mentioned, short term gains through defection and an acceptance of losing face and reputation seems to become the dominant strategy in cooperation. In this aspect culture is perceived to be changing from a long-term orientation and appreciation of social relationships, reputation and honour towards a short-term strategy irrespective of an impact on future actions.

Summarising the insights gained from the application of this game-theoretic model of cooperation and power distribution in triads on Wasta, the structural as well as personal power of actors and individual orientations must be considered in order to explain the circumstances under which Wasta can fulfil its beneficial normative power and help to facilitate collective action by contributing to build trust between actors. Power must be distributed in way that allows a mediator to fulfil its function but at the same time a formation of coalitions harming a beneficial cause of Wasta must be prevented. This perspective contributes to the development of a typology of Wasta that defines which aspects of Wasta are harmful and which aspects are considered beneficial. It is not the one-dimensional perception of cooperation or defection that can make Wasta a harmful practice but in fact cooperation between the wrong parties. Referring again the distinction between mediation and intercessory Wasta from this perspective, the practice of intercessory Wasta is not automatically harmful if it establishes cooperation between the right actors. Intercessory Wasta becomes an undesirable phenomenon if a power structure in the triad allows the domination of the trustor.

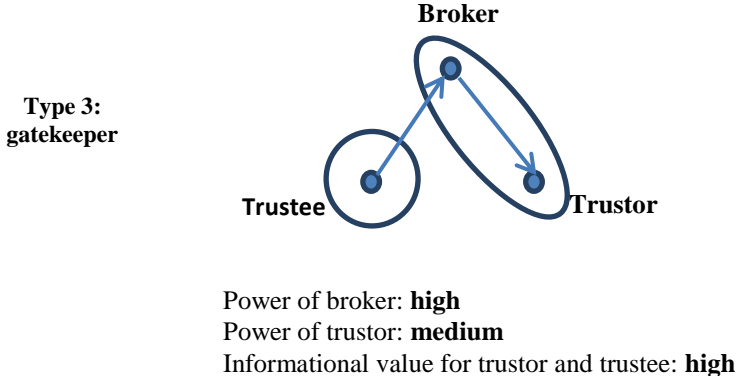
8.6.3 Broker and Groups

The concepts of Wasta presented above do not take group identity into account. The discussion of brokerage types in the previous chapter has demonstrated which constellations of brokerage in triads are possible. If two actors belong to the same group it is assumed that either a common group identity provides a base of trust or an established trust relationship exists. In any case belonging to the same group implies a certain degree of structural embeddedness and ties to common social contacts. The effects of network closure in environments of informal institutions were discussed in detail in chapter three. Considering the persistent role of tribal identity in Jordan, applying this concept of brokerage between groups is essential in order to provide a comprehensive model of dynamics in Wasta relations. Assuming that one role of Wasta is to build trust between unfamiliar actors and close a structural hole in a network through the role of a mediator in an informal setting; it needs to be assessed which conditions contribute to this aim if group identities, which mean tribal identities in this case, are taken into consideration. Although tribal structures in Jordan are persistent and in many cases still have a normative function the precise relation of trust and tribal identity is not clear and requires further research. Approaching Wasta from the perspective of the model of mediation structures by Gould and Fernandez (1989) is supposed to provide an understanding of the roles that tribal identity might play in a Wasta-based trust building process, although premises concerning the function of tribes in modern Jordan in personal trust construction need to be clarified. From the various types of mediation structures illustrated above, the constellations called gatekeeper and representative are considered the most relevant from a Wasta perspective.

In both structures one actor belongs to another group than the other two actors which are located in the same group. In both examples ties are considered unidirectional which means

that one actor seeks the contact of another actor and both share a common middleman as the only path between them. In the case of the gatekeeper the Waseet and the trustor share a group identity while in the case of the representative it is the trustee that is a member of the same group as the Waseet.

Figure 8.5: Structural Embeddedness of Gatekeeper



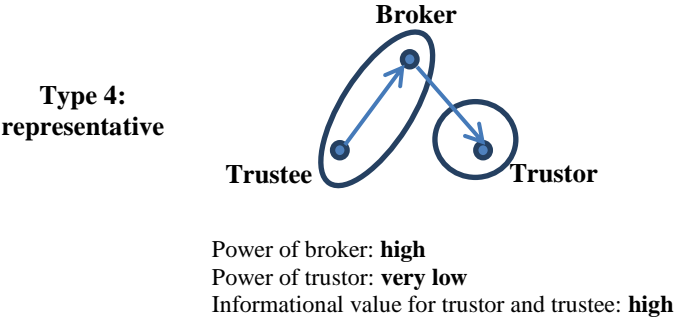
Source: Caplow (1959)

Applying again a sociometric perspective, in the case of the gatekeeper the Waseet is connected to the network of the trustee, which has two effects. Firstly the broker has a reputation to lose in his or her own collective, since the trustor has the possibility to communicate if the Waseet abuses power, which gives voice to the trustor. This voice option of the trustor resulting from structural embeddedness of Waseet and trustor might prevent the Waseet from entering a coalition with the trustee and act against the interest of the trustor. The second effect of this structure is the possibility of the Waseet to communicate the behaviour of the trustor, which is less significant from a governance perspective than the first effect. In the scenario of the representative structural embeddedness provides the Waseet the option to communicate defective behaviour of the trustee in their common network which, given the trustee actually cares about reputation in the own group, is supposed to provide

normative pressure on the trustee to not abuse trust. On the other hand the shared group identity of Waseet and trustee increases the probability of the formation of a coalition which in fact could harm the trustor.

It is not clear which effect outweighs which and if one of these two strategies dominates in a trust model based on Wasta. In the case of the gatekeeper the Waseet requires enough personal power to influence the behaviour of the trustee, since a lack of structural embeddedness gives no voice to the mediator. While in the scenario of the representative the challenge is to convince the trustor of the benevolent intentions of the Waseet and a strong and trustful relationship needs to be established.

Figure 8.6: Structural Embeddedness of Representative



Source: Caplow (1959)

Both constellations can be used to bridge structural holes and create social capital in both cases different aspects contribute either to the creation of trust or to the danger of defection and opportunistic behaviour. It needs to be assessed if and which group identities play a role in relation to trust in Jordan and if these group boundaries are identical with tribal identities. Given that particularistic group structures and Wasta are significant in trust building

processes, a model of Wasta needs to investigate the dynamics of the constellations described above.

8.7 Conclusion

The content analysis of interviews conducted in Jordan has revealed strong patterns of trust-building in a Jordanian business context. One important aspect which has emerged from the analysis of the data is the importance of personal trust. Establishing personal trust before entering a business relation is considered vital by most participants interviewed. Personal trust and informal enforcement mechanisms are considered more reliable and efficient than formal institutions. Respondents have outlined that informal institutions and the patterns described are deeply rooted in local culture and by many actors are the preferred mode of interaction in relation to written agreements. Middlepersons or brokers play a central role in the establishment of personal trust. Finding a common reference point in order to generate information and create structural embeddedness was described as almost imperative to businesspersons who want to enter a risky transaction with an unfamiliar actor. Middlepersons who act as hubs in networks transmit information about an individual's reputation and trustworthiness. Generating information through a trusted middleperson is one step considered a common and very important practice. Structural embeddedness and information about reputation are significant normative institutions in Jordan. The sound aspect of trust-building which emerged in the interviews is the normative pressure provided by the middleperson. The possibility of the broker to intervene as a mediator to settle a conflict if agreements are not fulfilled, is considered a major mechanism providing security in transactions. A middleperson connecting unfamiliar actors and providing normative pressure on trustees is the cornerstone of personal trust in Jordanian business. Triadic governance is a significant factor allowing collective action in Jordan.

Furthermore this chapter has connected the concept of Wasta to models of triadic governance and demonstrated how structural conditions determine the outcome of cooperation in triads. The typology delivered provides a base to distinguish between harmful and beneficial types of Wasta. In order to anticipate the positive trust-building function of Wasta and to avoid a crowding out effect of an important base for collective action, conditions which turn Wasta into an undesirable phenomenon must be defined. The concepts of intercessory and mediation Wasta alone are insufficient for distinguishing between rent-seeking aspects and positive dimensions of Wasta. The content analysis of the qualitative interviews has outlined the importance of triadic governance and personal trust in Jordanian business. Both intercession and mediation have emerged as factors contributing to personal trust. Intercessory Wasta and mediation Wasta are not two different types of Wasta but are intertwined. The expectation that the middleperson will mediate in the event of a conflict is part of the reason for intercessory Wasta. if it is practised to build trust in order to achieve beneficial collective action. Wasta can lead to harmful results if it happens in a context of power asymmetries lacking traditional mechanisms of check and balance. If all actors enter a Wasta-relation on their own behalf as principals having the options of voice and exit, Wasta is unproblematic. Asymmetric formalisation of one actor deprives the trustor of the option to voice discontent or to leave the constellation. Introducing formal organisations in an environment of personal trust leads to dilemmas in the interaction between the public and the private sector. By introducing power functions of actors and the options of voice and exit into the analysis of Wasta an abstraction of triadic relations is delivered which allows identifying problematic categories of Wasta and helps to understand how Wasta can function as a positive institution.

Derived from an extensive review of the relevant literature, this research has developed a theoretical framework for the analysis of Wasta by applying an institutional and structural

perspective. By anticipating insights from institutional, experimental and organisational research, this investigation is providing a new approach in the field to analyse Wasta. This novel analytical framework aims to serve as a cornerstone for future research on the role of Wasta in cooperation and organisations.

The empirical research has revealed the fundamental role of Wasta in the process of building personal trust in Jordanian business. To date no research in the field has dealt with these vital aspects of Wasta and analysed the contribution of Wasta to facilitate collective action. This newly developed typology of trust in Jordanian business is an essential aspect of and must be anticipated by any research dealing with management in Jordan.

By approaching Wasta as an informal economic institution in a management context, applying a structural perspective and investigating the importance of it in the process of creating trust through qualitative interviews, this research is currently the leading investigation of this phenomenon in this context.

Chapter 9 Conclusion

9.1 Thesis Summary

The discussion of the analysed data has demonstrated that this research has fulfilled its main aim of analysing the role of personal trust in Jordanian business, to identify patterns of the process of trust-building based on mediation or Wasta and to provide a theoretical game-theoretic model distinguishing between beneficial and harmful types of Wasta. The research objectives as defined in section 1.4.2 were achieved by the review of literature, analysis of data and development of theoretical models. This is illustrated below.

Table 9.1: Achievement of Objectives

Objective defined in 1.4.2	Achieved in chapter of this dissertation
<i>Objective 1</i>	<i>Chapter 2 and 3</i>
<i>Objective 2</i>	<i>Chapter 3</i>
<i>Objective 3</i>	<i>Chapter 2</i>
<i>Objective 4</i>	<i>Chapter 8</i>
<i>Objective 5</i>	<i>Chapter 8</i>
<i>Objective 6</i>	<i>Chapter 8</i>
<i>Objective 7</i>	<i>Chapter 8</i>

This research has systematically reviewed the relevant literature on Wasta, economic institutions as well as management research and identified a gap in the literature regarding Wasta and its role of creating trust in business in Jordan. Although a limited number of anthropological publications indicate that Wasta is playing a role as a mechanism to build

trust and serves a beneficial function beyond the dominating perception of Wasta as an indigenous type of cronyism and nepotism, no previous research has connected Wasta to institutional theory and its role in management.

Based on the insights gained from the review of the literature dealing with institutional theory, research questions for an empirical analysis of the phenomenon were derived. Considering the lack of knowledge in the field of research on Wasta and a qualitative grounded theory approach was identified as the most suitable methodology for an empirical analysis in this field. The categories that have evolved from the analysis of the qualitative interviews were interpreted from a perspective of institutional theory and got anticipated in the development of a new theoretical model of cooperation based on personal trust in Jordanian business.

Wasta as a social phenomenon and its role in business relations is under researched and its perception both in the scientific domain and the public discourse dominated by the rent-seeking dimension. This research has created new knowledge by gathering data through an empirical study revealing the importance of Wasta in the process of building personal trust and interpreted new knowledge from an institutional perspective applying it to a management context. By outlining the role of informal institutions and personal trust in collective action situations and connecting both existing knowledge and knowledge created through the gathering of new data, this research provides a new interpretation of Wasta beyond the dominating categorization of Wasta as a harmful practice of nepotism and cronyism. This research has established a new theoretical framework interpreting Wasta as a multidimensional construct containing harmful but also beneficial dimensions. The role of Wasta as a facilitator of collective action revealed by the qualitative interviews and the importance of informal institutions in collectivist settings as identified in the literature review,

provide a new perspective on Wasta and outline the importance of further investigating this under researched dimension of Wasta.

The review of literature of institutional economics has outlined the importance to both understand and maintain indigenous governance mechanisms as facilitators of collective action in the respective settings. Experimental research on informal institutions and trust has demonstrated the danger of eradicating social coordination mechanisms by formalising institutions, which can lead to a collapse of cooperation between individuals in a system. The undesirable side effect of formalisation, modernisation and monetarisation of social interaction or “crowding out effect” has not been considered in the current Wasta-discourse. This research advanced scholarship by putting Wasta into an institutional context, connecting it to the discourse on trust and cooperation, revealing the role of Wasta in collective action and deriving implications for organisational research. The results of this analysis provide a base for further research and discussion of Wasta’s beneficial dimensions and contribution to economic cooperation. As outlined in the literature review, the type of institution on which social interaction is based is also considered a determinant for the structure of organization in the respective setting. Assuming that Wasta and its idiosyncratic practices are a cornerstone of social coordination in Jordan, Wasta must also be considered by organisational research analysing the structure of business organisations in Jordan. This research connects the insights gained from the empirical research and the conclusions drawn from the review of institutional economics literature to a sociological and management research perspective introducing aspects of organisational structure and culture. Besides identifying a trust-building dimension of Wasta and outlining its vital role in Jordanian business relations, this research presents a model aiming to explain how Wasta can be understood as a determinant for an idiosyncratic type of Jordanian business organisations. These insights contribute to an understanding of

economic development in Jordan and can be applied by both scientific research dealing with Jordan or by practitioners in business in organisations for business ventures in Jordan. This research has dealt with an under researched phenomenon, outlined its vital role in collective action situations in Jordan, provided a theoretical model as a base for any further research on Wasta and contributed to a better understanding of business and management practices in Jordan. The empirical research this study as well as theoretical analysis are a substantial contribution to both science and professional practice.

9.2 Summary of Results

As described above, the purpose of this research was an investigation of the role of traditional Arab networking mechanism called Wasta in the process of trust-building in Jordanian business relations. By reviewing the relevant literature on informal institutions in the fields of sociology, cultural psychology, new institutional economics, transaction cost economics and management research, the role of informal institutions and personal trust for social cooperation was outlined. It has been a central aspect of this research to present Wasta in a context of institutional economics and to provide an analytical framework which approaches Wasta as an institution facilitating collective action. Connecting Wasta to insights from the fields of new institutional economics, sociology and cultural psychology has demonstrated the importance of informal institutions and emphasised their beneficial dimension beyond the dimensions of nepotism and cronyism.

The model created in chapter four has demonstrated the impact of the degree of formality on which cooperation is based on organisational behaviour. Besides the demonstrated importance of informal institutions to achieve collective action and cooperation in environments shaped by personal trust, the type of institutions also determines the structure of business organisations in the respective environment. These insights outline the importance to gain a

profound understanding of the type of institutions which coordinate cooperation in an economy. Wasta as an institution has never been approached from this perspective and no research has been carried out, analysing the trust-building function of Wasta in collective action situations.

The empirical research based on qualitative interviews carried out in Jordan has revealed the importance of personal trust in business relations in Jordan and analysed the trust-building process in case personal trust is required. The patterns of trust-building which have emerged from the interviews clearly show that personal trust established through structural embeddedness and the availability of a mediator is considered to facilitate cooperation between business persons. Interviewees have pointed out that personal trust is an important factor in Jordanian business and is required to be established before setting up a business relation. Referring to the analytical framework of institutional economics provided in chapter three, interviewees have expressed a lack of confidence in formal institutions and a preference for traditional, personalistic governance mechanisms based on personal trust.

Respondents have described the process of building personal trust and emphasised the importance to establish structural embeddedness through traditional mechanisms of networking. A vital aspect to build trust is the gathering of information about future business partners through personal networks. A common reference point which can provide information about the trustworthiness of unfamiliar business partners ideally needs to be identified. Well connected individuals in networks serve as information hubs and can help to establish a connection between unfamiliar businesspersons. If a middleperson between two unconnected actors can be identified, the structural embeddedness can contribute to the emergence of trust through two factors. One aspect is the availability of information and the possibility to spread information which provides normative power in an environment lacking

trust in formal institutions. The gathering of information about individual trustworthiness is considered imperative by interviewed businesspersons. The second aspect contributing to the emergence of trust through brokers is the expectation of intervention in case of defection. Considering the perceived lack of reliability of formal enforcement mechanisms, the availability of a mediator in case of a conflict provides security for interactions and reduces transaction costs. Although structural embeddedness is considered a trust-building factor in any society particularly in collectivist societies, the normative power of mediation has been emphasised as an indigenous Arab institution deeply rooted in Arab and Bedouin culture. The traditional mechanism to settle disputes through mediation and mutual agreements is considered a significant normative institution which facilitates cooperation and collective action. Establishing a new relation between two businesspersons through a broker is considered to provide security since the broker in case of a conflict is expected to intervene as a mediator between the two parties. The normative power of closed networks contributes to the emergence of trust between the involved parties and is a check on opportunism. The failure of the broker to prevent one party to abuse trust and behave opportunistically leads to the loss of face for the middleperson. The cultural environment in which this informal institution is embedded rewards mediators successfully practicing *Wasta* or *Wasata* with an honourable reputation and enhanced social status. Traditionally this role is not materially rewarded but rather imposes costs on the mediator. Referring to the mechanisms of trust-building presented in the literature review, reciprocity and the giving of gifts has not emerged as a concept to build trust in a business relation. Triadic relationships set up through middlepersons who act as facilitators for transactions has emerged as the dominant pattern of trust-building in an environment in which cooperation requires the establishment of a personal trust base.

As described in the literature review, Wasta is multidimensional phenomenon. Historically the term Wasta described a practice of mediation and arbitration which stabilised pre-modern and pre-Islamic Arab tribal society in the absence of a codified law. This informal mechanism assured the enforcement of agreements, norms and values and provided security for transactions beyond tribal boundaries. Historical development in the Middle East in general and in Jordan in particular included policies of colonisation and nation-building based on strategies which focused on building alliances with existing power bases through the provision of privileges, access to state resources and participation in power structures. The privileged access to power and resources has created gatekeeper positions in the society whose structural power could be abused. The provision of resources through gatekeepers in order to secure loyalty in the various polities set up in the territory of modern Jordan has led to the emergence of a rentier economy. The practice of individually gaining access to public resources through middlepersons has become a widespread phenomenon in modern Jordan also called Wasta. This rent-seeking dimension of Wasta is dominating the current perception of the term and literature almost exclusively deals with this aspect of it. In chapter two the various dimensions of Wasta identified are visualised. The limited publications available on Wasta distinguish between intercessory Wasta, describing aspects of rent-seeking, and mediation Wasta.

While the perception of the term Wasta is dominated by the rent-seeking dimension, empirical research has demonstrated the importance of triadic relations, structural embeddedness through brokers and informal mediation as crucial factors contributing to the emergence of personal trust. The review of literature on institutions has demonstrated the danger of crowding out bases of cooperation through formalisation of institutions. Policies designed

eliminate undesired and harmful structures of rent-seeking can lead to perverse effects of crowding out beneficial institutions vital for social coordination.

No theoretical model exists explaining the dynamics in Wasta-relations which turn a beneficial institution into a harmful practice. A clear typology of Wasta relations is required to define which aspects of Wasta need to be eradicated without crowding out dimensions of Wasta fulfilling a positive or even vital function in the society. The distinction between intercessory Wasta and mediation Wasta is insufficient to predict if the result is ethically desirable or not. Intercession and mediation are not two distinct practices but mediation must be part of intercession for Wasta to be beneficial. As the interviews revealed the intercession process can be a central aspect of trust building between strangers. Bringing two parties together and bridging a structural hole through intercession can be a unambiguously positive practice if all parties act on their own behalf as principals rather than agents and enter the constellation voluntarily with an option to exit. The model presented in chapter three applies a game-theoretic approach of triadic cooperation, defines which constellations are desirable and identifies which structural conditions are required. By introducing individual power functions of actors and the options of voice and exit, this model delivers an abstraction of dynamics in Wasta-relations and anticipates the insights gained from the empirical data of this research and from experimental research on cooperation in triads. By applying concepts of game theory to several categories of Wasta, the model has demonstrated how a lack of communication channels through formalisation and a lack of accountability through institutionalisation deprive trustors of voice and exit options and so eliminate the normative power of network closure. An asymmetric formalisation of actors in a triad allows the creation of alliances to dominate the trustor and abuse power.

Wasta as a practice, both intercessory Wasta and mediation Wasta is a critical force in collective action situations in Jordanian business contributing to the creation of trust and so facilitating cooperation. Wasta becomes harmful if it occurs outside a setting of traditional norms, values and communication structures. Any informal institution is built on personalism and face to face communication. In the process of modernisation institutions and communication get formalised. Problems arise if formality is introduced and imposed on a base of informal institutions. The competing rationalities of formal and informal create situations in which power can be abused. If the concept of Wasta is introduced into formal organisations and so taken out of traditional mechanisms of check and balance, dangerous situations occur. The phenomenon of Wasta is a double-edged sword and policies dealing with it must be designed carefully. Decision makers in modern Jordan are facing a Catch-22 situation. While Wasta in an environment of a partial institutional formalisation marginalises spheres of the society and threatens social stability by creating considerable discontent on the other hand any attempt to improve fairness and eliminate discriminatory practices might crowd out an institution also vital for social stability. This research has demonstrated that Wasta can contribute to the creation of trust, how it works and why it needs to be anticipated by organisational and management research. Any organisational strategy in Jordan must take into account this indigenous governance mechanism.

9.3 Contribution to Existing Research

In this research the perspective of new institutional economics is applied to analyse mechanisms of trust-building based on Wasta in Jordanian business relations. The literature reviewed, puts Wasta into an institutional context, defines the dimensions of institutions as facilitators of collective action and connects the institutional function of Wasta to the field of applied management research. The institutional typology of Wasta provided in this research

serves as a base for further research to clearly distinguish between different roles and dimensions of Wasta in an economics or business context. The new institutional economics perspective allows a systematic analysis of Wasta as a trust-building institution and bridging social capital in a business environment strongly relying on personal trust. Identifying and analysing this dimension of Wasta in a business context contributes to research on Wasta which currently is dominated by approaches dealing with the rent-seeking aspects of this phenomenon. The analysis of the qualitative data gathered for this research has clearly demonstrated how wasta can create trust in business transactions and so positively facilitate collective action between individuals through normative pressure of mediators and closed networks. The categories derived from the analysis of the interviews provide a detailed description of trust-building based on Wasta in Jordanian business relations. Since no detailed analysis of Wasta in this dimension exists, this research contributes to the field of research on informal institutions in a Jordanian business context but also to other environments in the Middle East in which Wasta is considered a major factor in social interaction. The insights gained from qualitative interviews of this research can serve as bases for new hypothesis particularly for quantitative research in this field.

By connecting outcomes of the empirical research of this study to theories of organisational behaviour and game theory, models are created anticipating the implications of the role of Wasta in economic interaction. Game-theoretic models on cooperation in triads provide a very precise typology of dynamics in triadic relations. Research on Wasta has to date remained disconnected from the insights of this field. The empirical results of this analysis are discussed from a game-theoretic perspective and the existing typologies are applied to analyse dynamics in Wasta-relations. The resulting model provides an explanation under which circumstances Wasta can turn from a beneficial into a harmful practice. This clear and

detailed typology of dynamics in Wasta, applying game-theoretic concepts, is required as a base for the design and conduction of further research on this phenomenon. The mode of interaction based on Wasta has largely remained isolated from the field of social network analysis and the resulting implications on organisational behaviour. The particular capability of each type of institutions to transmit and process information determines organisational learning and corporate structure. In order to put Wasta into a management research context, a model is provided, linking the insights gained from the empirical research of this study with theories on learning in social networks, and governance choice of organisations. This model demonstrates how Wasta as an institution might impact organisational structure. This research contributes to the existing knowledge on Wasta by linking it to theories of new institutional economics, by analysing the role of Wasta and trust in business empirically and by developing theoretical models which are supposed to function as the cornerstone for any further research on the trust-building function of Wasta in business.

9.4 Managerial Implications

This research on trust-building through mediation in Jordanian business has demonstrated how trust is generated through the normative power of brokers and mediators in networks. While this practice must be considered an indigenous Jordanian respectively Arab governance mechanism, the term Wasta describing this structure is negatively associated with rent-seeking aspects. This negative connotation prevents particularly foreign companies to identify the governance role of Wasta and integrate it into local management strategies. Despite the limitations of this study concerning the generalisability to the entire Jordanian economy, the imperative to build personal trust in the areas investigated has been demonstrated. Although further research will be required in order to gain a differentiated view of the necessity to create personal trust, the role of Wasta as normative force in business relations must not be

ignored. The omnipresence of personal trust built through networking, information gathering and mediation and the apparent strength of Wasta as a check against opportunism make it vital for any business venture in Jordan to consider this phenomenon. The multidimensional character and the ambiguity with which Wasta is treated in Jordan provide an inconsistent picture for outsiders. This research has demonstrated the necessity to identify circumstances under which Wasta is clearly harmful and those under which Wasta is a beneficial governance mechanism. Particularly for foreign investors with operational activity in Jordan applying formalised procedures common in the investor's country of origin must consider the dimension of personal trust in business and carefully choose a strategy appropriate to the local environment. Managerial strategies desiring to handle principal agent problems and issues of corruption by introducing formal and impersonal procedures must consider the threat of crowding out important mechanisms which might result in the failure of business operations. This research provides both a framework to identify scenarios in which Wasta is recommended to be applied as well as a typology of the process of building trust through Wasta.

The strength of personal relations and the capability to handle and transmit private and uncodified information is a factor to be considered in the design of strategies to manage organisations. Although the model presented is still at an initial stage and requires further investigation, cooperation based on personal trust and Wasta carries implications for management strategies in Jordan. Facing the choice to either integrate functions of the value chain or to rely on market relations depending on transaction costs, management might choose a different option depending on the degree of personalism of business relations. The capability of strong personal relations to process concrete and difficult to codify information and at the same time provide trust, allows companies to integrate operations at a different

stage in comparison to relatively more formal organisations. This insight must be taken into account by companies when considering outsourcing complex activities. Since the type of governance determines the transaction costs arising from processing information, the degree of integration depends on the degree of personalism of relations. When designing management strategies, companies must consider an organisational type appropriate for the type of governance mechanism dominant in an environment.

9.5 Limitations

Despite a careful design of the research approach this analysis has some limitations. The following aspects are considered limiting factors of this research:

- At the time of this research only a limited number of publications on Wasta from a business perspective were available. Publications explicitly dealing with the trust-building function of Wasta in Jordanian business did not exist at all. This lack of a knowledge base did not allow the design of precise a priori hypothesis.
- The researcher who developed and also conducted the interviews is alien to Jordanian culture and not capable of the Arab language. The researcher could only approach the researched phenomenon and the social environment in which the study took place through the literature available in English and German. Considering the complex and multidimensional character of Wasta, the researcher might not have had full access to all aspects and dimensions of this phenomenon.
- The interviews aimed to assess the role of personal trust in management and to identify patterns of trust-building. Interviews dealing with issues of trust conducted in environment shaped by a considerable degree of distrust must anticipate that the researcher might not be trusted as well and that interviewees might not reveal their real opinion on that subject.

- Sample selection was based on snowball sampling. Although considered the most suitable approach for the purpose of this research, snowball sampling bears the risk of a biased view due to limited representativeness.
- Although interviews reached theory saturation at a sample of 16 interviewees, and interviews were conducted with representatives of a variety of industries and fields, the sample size is insufficient for providing a differentiated picture. No conclusions can be drawn concerning differences between various industries and sectors of the economy.
- Since all interviews had to be carried out anonymously no demographic data are available to gain insights if different social groups have different approaches towards Wasta.

Despite these limitations, the outcome of this research is a strong pattern of how trust can be created. These insights from qualitative research providing categories of the analysed phenomenon lacking differentiation can serve as theoretical foundations for future research.

9.6 Directions for Future Research

9.6.1 Management Research

As this research approaches Wasta as a mechanism for trust-building in a business setting, the insights gained contribute to the development of theory in management research. Research of this phenomenon is at an initial stage and several aspects need to be addressed by further research.

- Further formalising and quantifying the normative power of middlepersons: This research has demonstrated how middlepersons can help to initiate new relationships and contribute to the creation of trust by providing normative pressure and serving as

mediators. While this research has developed categories important for understanding this process, future research needs to quantify this effect and verify this model.

- Analysing the role of Wasta in different industries: Further research needs to distinguish the role of Wasta in different sectors of the economy and analyse if the role of Wasta differs among industries or companies of different size.
- Analysing the role of Wasta for foreign companies: This research has provided a model of trust-building through Wasta from a perspective of Jordanian companies. It needs to be assessed if the same rules apply to foreign companies and how trust can be created by outsiders lacking access to Wasta networks.
- Analysing the role of Wasta in the governance models developed: The models anticipating the role of Wasta in supply chain governance are purely theoretical hypothesis and need to be verified by future research.

9.6.2 Social Network Analysis:

Social network analysis is a suitable method for analysing the structure and functions of social networks. As outlined in the literature review social network analyses provides useful categories for further exploring Wasta. The aspects listed below require further research based on social network analysis.

- Analysing structural embeddedness of actors: In order to assess the structural power of actors and particularly brokers in Wasta relations, structural embeddedness needs to be analysed.
- Analysing transitivity: Although third parties facilitate cooperation between two actors, it is not clear what kind of relation between the two cooperation partners is expected to emerge. Research needs to analyse if a strong social embeddedness is

required for trust to grow or if the initial triadic relation is sufficient and the broker will keep the position during the time of the relation.

- Assessing tie strength: In order to understand the capability of Wasta relations to deal with certain types of information, as discussed in the models presented, the tie strength between actors needs to be assessed.

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