Marketing to the Arab World

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Abstract— **Managers of multinational enterprises (MNEs) from developed economies are often cautioned to understand the cultural environment of countries in which they would do business. This is particularly true in the case of emerging economies, and even more so in those like Arab countries with which most MNEs would have relatively limited experience. This study examines mechanisms that are pertinent to Arab business culture, particularly following the 2011 Arab Spring. It does so by analyzing three major groups: leaders (politicians and business professors), business persons, and postgraduate business students, all Palestinian nationals located in the Palestinian authority. We discuss the Arabic culturally based business structure called Wasta, a system of reciprocal favors that relies upon social networks. We develop an instrument to measure three dimensions of Wasta and test whether they elicit different reactions among these three different groups of Arabs regarding relationship satisfaction and organizational performance. Our results indicate that the groups are affected differently by these dimensions, and thus see different utility in Wasta. This insight can be crucial for MNEs that would enter Arab markets, seek to employ younger Arabs, partner with Arab businesses, or deal with government officials.**

Keywords-Managers; Multi Natinoal Companies; MNEs; wasta; arab market;

I. INTRODUCTION

Despite the importance of networks in emerging markets both for local and foreign firms, there are only a limited number of empirical studies on the subject. Most research has focused on the function of networks in East Asia (Lockett et al., 2002), in India (McCarthy et al., 2012), China (Bruton and Ahlstrom, 2003), and Russia (Puffer et al., 2013).

The Arab world is significant to the Western world and global managers, not only for its financial and political impacts, but as a potentially huge market. The region represents a large proportion of the world's Islamic societies, who account for over 20 percent of the world's believers (Costello et al., 2015). Weir (2003) claims that Western academics in management and business exercise "cultural myopia" in their tendency to view different cultures through Western eyes. Clearly, host country effects including cultural as well as other institutional forces mandate MNCs to respond

in some way to each local context (Morschett et al., 2010). Additionally, taking into account the local context can allow MNCs to adapt strategies to the local environment rather than follow a standardized approach (Rugman and Verbeke 2004).

The Arab Spring, which began as a political uprising in Egypt in 2011, was widely welcomed as providing a window of opportunity for far-reaching political and economic reforms. However, the range of problems inside the Arab community has compelled the young generation to emulate and demand Western culture (Snyder, 2015), ethical standards, and modern business models from its leadership (Alhyasat, 2012), leading to an inevitable clash between generations (Khakhar and Rammal, 2013). In many ways we may be witnessing the beginnings of the unraveling and dismantling of the traditional Arab order (Pramanik, 2014). This tension demands a better understanding of the forces behind the potential change, and the potential for new exchange models that better fit this new generation, a point that this paper addresses.

II. THE WASTA FRAMEWORK

The basic tenet of business in the Arab world is socialization such that there is a need to establish a relationship first, then to build connections, and actually come to the heart of the intended business at a later stage (Pramanik, 2014; Berger et al., 2014). The social capital built is called Wasta (Cunningham et al., 1994), a cultural practice that is pervasive in Arab society, making it essential to be part of a network. Those who achieve positions of authority and power are expected to oblige their in-group members. Wasta is preserved due to the weak formal institutional structures, and most importantly, because of its inherent ties to particularized trust and family networks that form the basis of business relationships in the Arab World (Al Hussan et al., 2014), topics described earlier. Wasta is an Arabic word that refers to an implied social agreement, characteristically within a tribal group, which obligates those within the group to offer assistance and favorable treatment to others within the group (Ali, 1996). Wasta is derived from the Arab word "yatwassat" that means navigating towards the middle. Wasta can be defined as intervention on behalf of others, or assisting others to achieve something they could not achieve unaided. In order to function well, the practice must involve one party who is

structurally powerful, controls access to resources, or both. Cunningham et al. (1994) claims that Wasta has evolved over time and its foremost goal has moved from conflict resolution as a means of survival to the process of intercession. The latter involves a person intervening on behalf of another to gain an advantage for that person, such as a job, a government certificate, a tax discount, or admission to a respected university. In examples where there are many seekers of the same benefit, only applicants with the strongest Wasta are successful.

A key to doing business in the Arab world is understanding that society is wholly networked, and that business activities revolve around these business social networks. Within the Arab context, trust needs to be established before any business relationship can progress, and that trust is usually established at the personal level (Al Hussan et al., 2014) in which Wasta connections play a primary role (Al-Omari, 2008). Hence, a major part of a manager's position is to utilize his or her family and Wasta social networks to establish and retain business relationships. For managers of MNEs to conduct business successfully, it is essential to understand how Wasta works through such networks, and establish relationships with members of influential networks by building trust over time such that they create Wasta for themselves and indirectly for their firms. Using Wasta through networks in the Arab world is similar to doing business successfully in other emerging economies such as Sviazi in Russia (McCarthy and Puffer, 2008) and Guanxi in China (Yen et al., 2011).

A. Three Dimensions of Wasta

Wasta contains three main dimensions described below: *Mojamala*, *Hamola*, and *Somah* (Berger et al., 2014).

Mojamala (مجاملة) is the emotional element of Wasta, and is the social bond between two parties in a business or social network. It refers to the extent of emotional understanding and feelings of loyalty. It is an Arabic expression that is used to depict the desire of Arabs to be obliging for the sake of maintaining harmony and avoiding conflict during business discussions (Al-Omari, 2008).

Hamola (حمولة) is the conative component of Wasta, referring to the level of human empathy, benevolence and favoritism one has with another through owing or being owed favors (Abosag and Lee, 2013). In order to reduce uncertainty and create value, Hamola is needed. It is expected to lead to positive outcomes in business interactions. A Hamola (tribe) is considered the largest politico-administrative unit, and belonging to a tribe involves more than merely successive generations of genetic relationships. That belongingness depends upon a person's identification with his or her tribe that involves thinking the same way, believing in the same principles, assimilating the same values and ethos, acting according to the same rules and laws, respecting the same hereditary sheikh (an honorific title for an Arab tribe or religious leader), living together, defending each other, and even fighting together. The Hamola is based on the

infrastructure of the tribe, but the software that maintains it is the reciprocity between its members.

Somah (سمعة) is the cognitive component of Wasta, and is centered on the length of the mutual relationship, and how business is conducted, as well as how disputes are resolved (Alhyasat, 2012). It measures the degree of mutual commitment in a relationship and denotes the responsibility to the tribe, where one applies personal power to make the right and rational resolution, and balance among competing needs (Sidani and Thornberry, 2013). Abosag and Lee (2013) claim that the chief stumbling block to the effectiveness of networks and alliances is the absence of trust. The process of socialization in the Arab world is very time consuming, yet once a rapport has been established, unwritten contracts are absolute and one's word is one's bond. Failure to meet verbally agreed upon obligations will lead to a termination of a business relationship and loss of face (Weir, 2003).

B. Satisfaction and Performance

In the Arab context, satisfaction is considered to be the fundamental outcome of Wasta. Outcome variables denote those variables that result from working relationships. The dimension of satisfaction is founded on the degree to which the relationship achieves its performance expectancy set by the actors in the network. Satisfaction is thus a crucial component of relationship quality that can enhance performance. Satisfaction can be used as a signal to specify how content the exchange actors are with the mutual relationship. Our hypotheses below imply that satisfaction in a relationship is grounded in shared expectations and the parties' overall assessment of the business relationship. In such relationships, satisfaction is needed to achieve desired goals, and without it, the relationship is likely to disintegrate. In this context, satisfaction can also be used to measure how content one party is with a particular exchange (Barnes et al., 2011). In an Arab context, satisfaction is not only utilized to reflect the value of the exchange, but is considered as an outcome of a good relationship (Berger et al., 2014). Satisfaction in a relationship is also important for fostering positive conflict resolution that can augment firm perceived performance from the exchange, including lowering of transactional costs (Yen et al., 2011). Thus, it is important to explore whether positive Wasta and business relationships lead to enhanced satisfaction from the exchange, which in turn should influence perceived performance gains such as improving sales, market share and profitability.

III. METHODOLOGY

We use the GRX model for international business trust framework that was implemented in the Chinese context by Yen et al. (2011). This model is comprehensive in its coverage and scope of concerns that affect international business (Barnes et al., 2011). These three constructs collectively are considered to mirror the quality of social networks and developed into a multi-dimensional scale. This model has been used to study Chinese business trust (Yen et al., 2011; Barnes et al., 2011; Berger et al, 2015), Russian business trust

Sviazi/Blat and hence appears to be a suitable framework to study Wasta.

Based on the input from the interviews, we developed a 31-item survey and administered it to the three groups Recognizing the cultural reluctance among Arabs to engage in surveys, potential interviewees from the business and leaders groups were telephoned to clarify the academic purpose of the study, ensure anonymity, and build rapport to increase their willingness to complete the survey. For those willing to participate, a meeting was scheduled and an Arabic-speaking researcher visited their institutions to conduct the survey.

We interviewed 356 business people representing 40% of the sample (44 from Jericho, 89 from Nablus, 178 from Ramalla, and 45 from Hebron). The data base of business people was constructed from the Wahat al-Salam – Neve Shalom data base. The business people sampled consisted of managers of SMEs who are active in import and export from the Palestinian Authority and use Wahat al-Salam – Neve Shalom services as a bridge to export their products and services outside of the PA. The leader sample, representing 18% of the total sample (156 people), consisted of politicians and business professors. The polititians were from the regional level who worked closely with the Wahat al-Salam – Neve Shalom project (واحه السلام) and the business professors were from the Palestinian universities sampled. The goal of that initiative, which means Oasis of Peace in Arabic and Hebrew, is to connect Arabs from the Palestinian Authority to Israelis at all levels, to promote peace and tolerance of the other through mutual dialogue and business (http://wasns.org/nswas.org/rubrique22.html). Sixteen respondents came from Jericho, 62 from Nablus, and 78 from Ramallah. No politician contacted from Hebron was willing to be interviewed. The student sample consisted of 379 graduate business students from four of the 12 major universities in the Palestinian Authority comprising 42% of the total research sample (47 from Bir Zait University in Ramallah, 47 from University in Hebron, 95 from Schem University Alnajilm, and 190 from Alquads University). Two graduate business classes were sampled from each university, and paper questionnaires were distributed in class by an Arab researcher. The researcher was available to answer any questions from the students. In total, 891 individuals from the three groups completed the survey within a 12-month period in individual meetings with one of the researchers.

IV. DISCUSSION AND CONCLUSION

Our study focused on the impact of Wasta on relationship satisfaction and on relationship performance for three different groups. It was hypothesized that higher levels of each component of Wasta would contribute positively to relationship satisfaction, and that the latter would in turn lead to higher relationship performance.

Looking at students, we see that greater empathy (Mojamola) increases satisfaction, which in turn leads to higher relationship performance. Tribal connections (Hamola) based on reciprocity lead to higher performance and satisfaction both directly and indirectly. Additionally, generalized trust, Somah - S(a), was found to have a positive relationship with satisfaction leading to higher performance. This can be explained by the fact that student's managerial ideology appears to be a hybrid - one that combines both domestic and imported ideas. They have likely learned through education and interaction that effective management involves a style that blends the best elements of both their native and foreign cultures. Given the importance of Mojamola and Somah for the student group, we see the need for empathy and trust exhibited in parallel with Hamola, the traditional tribal component of Wasta.

Looking at businesspeople, we see the same result as with students where more tribal connections (Hamola) lead to increased satisfaction and performance both directly and indirectly. As opposed to students, however, the businesspeople do not see empathy as being important, consistent with previous research undertaken by Berger et al. (2014). In other words, Arab businesspeople do not see empathy as important in conducting business. Particularized trust S(b) was missing, illustrating a general lack of particularized trust in business transactions in the sampled group. This is surprising as it seems that Wasta in this context is not built on particularized trust but on tribal relations only. This suggests that if one is generally trusted and is not a group member, satisfaction and performance from the relationship decrease because everybody trusts that person and there is no advantage to transacting with such a person through the network. Thus it seems that Arab businesspeople transact more on an arm's length model without having trust, but still incorporating the importance of tribal relations.

The leaders model seems more robust than the other two groups in the sense that Hamola and Mojamola combined into a single construct illustrating that tribal relations and empathy is seen by this group as being one. This highlights the strength of tribal relations in the leaders group. As predicted, generalized trust S(a) had a negative relationship with performance and satisfaction while particularized trust S(b) had a positive relationship with satisfaction, in turn leading to better performance.

In view of our results, MNEs as well as EMNEs and even smaller companies that would do business in the Arab world must understand the intricacies and pervasiveness of Wasta. That practice is considered to be a way to get things that one does not deserve or has no access to. Such a view is actualized either by knowing the right people, or in some cases through outright bribery. This not only creates discontent among those lacking Wasta, but also harms the entire society if agents of the public interest use the power of their position for private gains. While parts of social organizations have embraced the logic of modernity, partly introduced by outside powers, other spheres of society are still organized according to a more traditional institutional arrangement as explained earlier. Nevertheless, as mentioned earlier, individuals who are members of global values clusters can serve as a bridge between outside organizations and local actors.

For many, and particularly Arab youth, Wasta is seen as being 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. Such outcomes of Wasta, however, seem to fit the needs and modus operandi of leaders and, to a large degree, business persons, as seen in our study results. So depending upon an MNE's business objectives in the Arab world, and the parties with whom they would become most involved, they will have to deal with the different prevailing perspectives on Wasta. In dealing with Arab leaders, they can expect that Wasta will be an integral part of any interaction such as entering into a contract or obtaining permits to conduct business. Arab managers, in contrast, will often conduct arms' length transactions with well positioned and ethical MNEs, but will likely transact in a socially based fashion with Arab inner group firms, leading to a two tier model of exchange. MNE managers will have to decide, as they do in many emerging markets, how to react to overtures to become involved in Wasta, generally meaning providing some preferential benefit to the official, business person, or influential academic, or to transact transparently in an arms' length manner. Patience and a willingness to build mutual trust that could provide entry into an influential network could be the most desirable approach since it could avoid the worst experiences of Wasta. In summary, Wasta is seen differently by different groups in Arab society, and MNE managers operating there will have to develop a solid understanding of the practice and its different perceptions among varying Arab groups with which they might become involved if their business goals are to be successfully achieved.

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