

Institutions, Organizations & Identity:  
Building Legitimacy in the Arab Gulf

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A Thesis

in

The John Molson School of Business

Presented in Partial Fulfillment of the Requirements  
for the Degree of Master of Science in Administration at  
Concordia University  
Montreal, Quebec, Canada

December 2005

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*ISBN: 0-494-14365-7*

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## ABSTRACT

### Institutions, Organizations and Identity: Building Legitimacy in the Arab Gulf

Mohamad El-Chafehi

Invariably, every market has a set of institutions that regulate and define economic activities. Emerging economies may be developing in a way that integrates and blends traditional practices and beliefs with international conventions and standards. In these economies, like in all others, competing logics co-exist and are used to rationalize the persistence of traditional practices and the institutionalization of reforms. The remarkable characteristic of these markets, specifically due to the increasingly globalizing business, is that they often harbour completely diverging institutional logics, including those integral to Western firms' *modus operandi* and those of local firms building on traditional practices.

A neo-institutional theory based theoretical framework is developed to explore the interaction between society, exerting conforming pressures, and organizations, responding to these pressures. In order to explore the applicability of the developed model, a qualitative field study was conducted. Data was collected by interviewing high ranking officers of Canadian and indigenous firms operating in UAE. Among the research findings, organizational identity was found to moderate firms' strategic choices in response to institutional demands. 'Wasta', a unique local institutional artefact, was found to provide firms leverage in manipulating institutional demands.

## **ACKNOWLEDGMENTS**

Many people have contributed to the development of ideas articulated in this dissertation. I am particularly grateful to the members of my committee, Kai Lamertz, Martin L. Martens, and Rick Molz. Kai Lamertz has not only guided my research work, but has taught me a tremendous amount over the past years on theory, research, and life in general. Martin L. Martens has introduced me to cognitive theories and has been an important influence on the development of methods. I owe much of my understanding of globalization and international business to the teachings of Rick Molz. Each committee member has had a unique influence on this work, and I thank them for their comments, criticism, and advice.

Thanks are also due to the following people who have given me insightful comments and information about UAE's business environment: Ali and Khalid El-Chafehi, Muhammad Ayoub, Pedro and Yasmine De Aranda, and, of course, all the research participants.

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## **Institutions, Organizations and Identity**

### **Building Legitimacy in the Arab Gulf**

At the broadest level, globalization has invigorated the debate about the very nature of the relation between organizations and societies. The question concerning the effect of interactions between local societies and international organizations as either yielding to global uniformity, the convergence hypothesis, or favouring local diversity, the divergence hypothesis, remains a subject of much heated debate (Feigenbaum, 2002; Goldblatt, Held, McGrew, and Perraton, 1999; Boyer, 1996). On the convergence side, local organizations may adopt international standards and best practices in order to access Western markets (Mueller, 1994). Indeed, there have been tremendous pressures from international bodies and grass root movements on multinationals and governments to clamp down on sub-contracted local operations that use sub-standard practices ranging from child labour to poor working conditions (Stiglitz, 2002). Local organizations may also adopt the form of successful foreign organizations in a hope to achieve similar success through mimicry. The mimicry phenomenon, known as competitive isomorphism, has also been used to explain structural and strategy similarities between organizations across a given field (Oru, Biggart, and Hamilton, 1991). The anticipated effect of the convergence hypothesis on society is the dismantling of traditional and pre-capitalist institutions and their replacement with a set of institutions that favour competition and consumption (Dacin, Ventresca, and Beal, 1999; Tully, 1995; Friedland and Alford, 1991). On the divergence side, differences between organizations in strategic decisions and in structures are explained by the competitive drive of organizations to



customize a distinctive approach to distinct markets in order to appeal to local tastes and values in a bid to gain market shares (Ahlstrom & Bruton, 2001). Therefore, differences may be due to the extent to and the manner in which a foreign subsidiary interprets and adopts local practices. Another related factor that drives divergence is the need for organizations to distinguish themselves from competition and project a unique image that taps into a niche set of socially valued characteristics (Deephouse & Carter, 2005). According to the divergence hypothesis, organizations promulgate and strengthen local traditions and values by appealing and/or using them. It is quite possible that organizations adopt certain standardized practices and promulgate certain local practices. A useful context to study the interaction between organizations and society is emerging or developing markets. The economies of these societies provide an ideal context for studying such interactions for at least two reasons. First, most international organizations are home-based in the West, while most new markets are in the East and South. In other words, the interaction between foreign forms and local institutions occur in these 'new' societies. Second, the often large institutional differences between home and host countries make the influence of one over the other easier to map. For example, a US based firm whose Dubai subsidiary includes a *musalla* (a room specific for prayer) has been clearly influenced by certain local practices.

In order to explore the interaction between organizations and society, both market and non market factors need to be taken into consideration. To a certain extent organizations are products of their environments as they respond to and/or reflect the taken-for-granted norms and beliefs that define and structure economic activity within

their sphere of influence. Indeed, firms' responses to both market and societal pressures have been found to play an important role in explaining differences and similarities between organizations (Peng, 2002; Oliver, 1991; 1996). The perspectives that emphasize institutional environments, such as rules and belief systems, as key determinants of organizational structure, strategies, and behaviours are rooted in neo-institutional theories (Scott, 1994).

Authors and researchers who use a neo-institutional perspective suggest that organizations are interpenetrated and shaped by the prevalent institutional logics of the environment in which they operate. This process has been described in the literature from two angles. The neo-institutional traditionalists stress the embeddedness of norms and conventions in the cognition of actors as taken-for-granted facts of life. Therefore, within a neo-institutional framework, organizational forms reflect the shared understanding by actors of what an organization is and how it operates (Dacin, Ventresca, and Beal, 1999). An extension of the embeddedness concept that has been used to explain similarities between forms is institutional isomorphism (DiMaggio and Powell, 1991). Through this phenomenon, organizations come to react to problems in a routinized and preconscious way with the sole justification that 'it has always been done in this manner' (Oliver, 1996). The managerial discretion approach theorists, on the other hand, stress the competitive benefit of manipulating societal pressures (Pfeffer, 1981). Borrowing from resource theory and impression management, this approach highlights the potential of furthering corporate interests by strategically manipulating social expectations (Abrahamson and Hambrick, 1997). These strategic choices often extend beyond

managerial symbolic rhetoric and may require structural or procedural adjustments to maintain a certain consistency between what is claimed and what or how things are really done (DiMaggio and Powell, 1991; Pfeffer, 1981). The difference between the traditionalist and the managerial discretion neo-institutional perspectives is that while the former is looking at the organization from outside in, the latter is looking from the organization out (Suchman, 1995).

A key strength of neo-institutional theories in exploring issues of international management is the ability to consider the interplay of market and non-market forces on the conduct of foreign and local firms (Peng, 2002). In the study presented in this thesis, a theoretical framework based on neo-institutionalism is developed to explore the interchange between organizations and society. Decision makers from Canadian and Local firms operating in Dubai, UAE, are the subjects of the research. The research goal is to identify the strategic choices undertaken by each firm in response to specific societal constraints and how they are perceived to have affected the firm's effectiveness. A key contribution of the proposed model to the neo-institutional literature is its potential capacity to explain motives behind an organizational strategic choice and perceptions. Facing a perceived institutional demand, a firm's strategic response may very well depend on the way the firm defines *itself*. Organizational identity is defined as "narratives about the "soul" or essence of the organization, advanced by stakeholders as claims about meaning" (Ashforth and Mael, 1996: 21). An organization's behaviour is often consistent with its identity, and, equally important, an organization's strategic action often reinforces that identity (Ibid). Accordingly, organizational identity is seen as

moderating the interactions between society and organizations, particularly in regards to which institutional demands a firm perceives and how it responds to them.

The body of this research paper is divided into seven main sections. The first section is a review of neo-institutional theory literature in organizational science and consists of three general parts. The first part, ‘institutions and markets’, introduces several key concepts that give meaning to markets and define their relation with individual cognition and society in general. The second part, ‘legitimacy and strategic behaviour’, reviews the evolution of the traditional and the resource views of legitimacy in describing the relation between the environment and strategic behaviour. The third part, ‘organizational identity’, introduces identity as a key conceptual link to understanding the interactions between firms and their societies. The second section illustrates and describes the conceptual framework developed in this thesis. The third, fourth and fifth sections present a detailed account of the research design, methodology, and analysis and findings of the paper’s exploratory field study. The discussion section integrates the results of the research into the general theoretical framework, and provides a broad interpretation of the research findings in terms of interactions between institutional frameworks and organizational forms. The last section discusses some of the research limitations and suggests opportunities for future research.

## **LITERATURE REVIEW**

Exporting successful organizational forms from home markets does not guarantee success in operations abroad (Triandis, 2002; Cole, 1992). The degree of congruence between an organizational form and the institutional framework of its external environment has been theoretically and empirically validated as a key determinant of organizational performance (Peng, 2002; Ahlstrom and Bruton, 2001; Deephouse, 1996; Suchman, 1995; Scott, 1994; Oliver, 1991). Organizational form refers to an organization's structure, strategies, and activities (Hannan and Freeman, 1977). In this thesis, an institutional framework is defined as a "set of fundamental political, social, and legal ground rules that establish the basis for economic activities" (Davis and North, 1971:6). On the one hand, organizations that fail to be perceived as conforming to state regulations or societal norms either are hampered by punitive state sanctions or find themselves socially isolated, excluded from lucrative networks and ineffective at appealing to stakeholders. The trouble for foreign firms is that by conforming to local institutions, some of their structures, processes and strategies may be altered. This is a problematic for two reasons. First, they run the risk of losing sight of what made them successful in their home countries by modifying some of their defining processes. Second, subsidiaries may run in confrontations with their head office simply because the lines of communications may have been affected. An important question is then how do international organizations achieve a balance between the need of adapting to local conditions with the need of maintaining corporate integrity?

On the other hand, as foreign firms manipulate local institutions and set precedents for local firms, the local institutional framework may in turn be in the process of being reshaped. Therefore, an equally important question is how do local firms come to substitute traditional practices and behaviours with foreign ones? The following review of neo-institutional theory literature will provide the conceptual framework for understanding and answering these questions.

### **Institutions and Markets**

Institutions are symbols and belief systems through which individuals can interpret and make sense of their environment. While all institutions are meaning systems, not all meaning systems are institutions (Scott, 1994). Scott holds that institutions are meaning systems encompassing representational, normative, and constitutive rules. The representational rules refer to the interpretation of the symbolic dimension of institutions. These interpretations are broadly shared and result in a common understanding of what a given institution stands for and of its role in society. For example, the mention of ‘mental hospital’ suffices to elicit in audience the implied meaning and role of this institution in society. Constitutive rules, on the other hand, are the often taken-for-granted dimension of institutions that “define the nature of actors and their capacity for action” (Scott, 1994: 61). The two-week yearly paid summer holidays constitute a time-off period to Canadian workers during which they are not bound by their work obligations and are free to engage personal activities. Normative rules are the ‘etiquette’ dimension of institutions. They are prescriptions about what constitutes appropriate actions. They can take the form of explicit norms, such as rules for playing

chess, or of implicit norms, such as our shared belief in Canada that protecting the environment begins with individual vigilance. Another characteristic of institutions that Scott incorporates into his definition of institutions derives from North's emphasis on institutions as formal and informal constraints. Institutional rules are reinforced by regulatory processes that are either formal or informal and which compel organizations to conform to institutional pressures:

“Organizational participants are ... subject to normative pressures and cognitive constraints to embrace forms regarded as appropriate or legitimate for organizations of the type to which they belong” (Scott, 1994: 74).

Building on Scott's (1994) institutional rules, Ruef and Scott (1998) identify three types of institutions. Institutional pressures and rules emerge from 'regulative, normative or cognitive' institutions. Cognitive institutions embody Scott's earlier concepts of representational and constitutive rules, and are the taken-for-granted “frameworks on which normative and regulative systems are construed” (Ruef and Scott, 1998: 879).

Institutional pressures are exerted by the institutional context, which includes government agencies, interest groups, public opinion, and social, business and professional networks (Oliver, 1996). The pressures exerted by the institutional context delineate 'the rules of the game' and thereby shape organizational form. This is quite clear in respect to explicit rules such as state regulations about working conditions or quality standards that are reinforced through coercive mechanisms (Scott and Meyer, 1991). It is less clear for implicit institutional rules that play an equally important role in

defining economic activity and shaping organizational form. According to Zucker (1991), concepts of appropriate economic activity are embedded in the cognition of actors and passed on from generation to generation. Shared beliefs “exist as facts, as part of objective reality, and can be transmitted directly on that basis” (Ibid: 83). Thinking of organizations as being operated and managed by individuals, organizations are not only part of the institutional environment, but through their activities and relationships also act to perpetuate institutions. In other words, implicit rules are enforced and reinforced through their link to belief systems embedded in the cognition of individuals and their organizations.

The link between individual cognition and institutions has been the focus of a seminal paper by Friedland and Alford (1991). Their argument that institutions precede individuals is well summarized in the following passage:

“The transhistorical individual can not have ontological priority in the theoretical representation of society. Beginning with individuals as rational-instrumental actors takes as a theoretical premise an analytical category which has been shaped by institutional transformation. (1991:240).”

Rationality, they forcibly argue, is institutionally defined and rationalization is made in reference to what they termed institutional logic. The latter is defined as a “set of material practices and symbolic constructions... which is available to organization and individuals to elaborate” (Ibid: 248). In other words, markets are socially constructed and, therefore, are at the same time stable and shifting. By shifting, I refer to the gradual redefining within a market of what constitutes appropriate or legitimate economic activity. Driving



this process are institutional changes, which occur as a result of colliding institutional logics co-existing in the market.

Townley (2002) draws a parallel between Friedland and Alford's concept of institutional logic and Weber's (1978) concept of 'value spheres'. According to Weber's view of society, rationalization inevitably leads to distinct social subunits that are "constantly colliding spheres of activity" (Townley, 2002: 164). Therefore, to a certain extent these terms are synonymous and will be used interchangeably in this paper. In her longitudinal study of Alberta's Cultural Facilities and Historical Resources, Townley (2002) found that by appealing to formal rationality (based on means-end calculation), much of the agency's resistance to the government's reform initiatives to become more efficient wavered. The pressure on the agency to reform was occurring at a time where the efficiency-driven institutional logic was sweeping through Western governments and public services (Burke, Mooers, and Shields, 2000). Therefore, by appealing to formal rationality, industry leaders were able to replace a set of institutionalized practices and traditions with widespread and legitimized practices and values. This explanation is in line with Friedland and Alford's (1991) painting of institutional frameworks as made up of competing institutional logics with some more dominant than others in various fields. Interestingly, from an international perspective, it suggests that the interaction between foreign firms and local societies may be redefining the nature of the competing logics within the host institutional framework by pitting Western institutional logics with traditional institutional logics. Furthermore, the deinstitutionalization of Alberta's Cultural Facilities and Historical Resources' traditional practices may have been possible

through appeal to formal rationality due to the poor financial performance of the agency's facilities. In other words, if the facilities were faring well financially, there may have been much more and potentially overriding resistance. In support, a longitudinal study by Deephouse (1999) on commercial banks in the Twin Cities found that banks diverged from prevalent practices following periods of poor performance, "an antecedent of deinstitutionalization" (1999: 160). This is revealing because it may suggest that a set of practices which is perceived by firms to be most effective in a given market will be increasingly adopted and thereby signal the dominance of its associated institutional logic. It may be necessary to underline here that the associated institutional logic need not be strictly Western or traditional, but may very well be a hybrid.

According to the discussion thus far, a market is embedded in an institutional framework and characterised by a set of institutional logics that provide the base for institutional change. Friedland & Alford (1991) define markets as "not simply an allocative mechanism but also an institutionally specific cultural system for generating and measuring value" (1991: 234). At the base of business norms and traditions are society wide held values and beliefs, which give society a unique blend that enables its members to define themselves as such (Hofstede, 1980). In retrospect, underpinning competing logics are shared, but not necessarily coherent, cultural elements. By extension, Peng (2002) describes institutional framework as broader than, and inclusive of, culture. Since organizational forms are shaped by their institutional framework, the question then is do variations in cultures predict variations in forms? The short answer is no. There is a considerable body of research that validates the use of cultural dimensions

for managing human resources (Mendenhall, Dunbar, and Oddou, 1987; Gannon, 1994; Hofstede, 1980; 1991). In a nutshell, cultural identity remains the most important predictor of an individual's attitudes and behaviours (Gannon, 1994; Hofstede, 1980). However, as the level of analysis becomes broader, culture's predictive power sharply decreases (Orru, Biggart, and Hamilton, 1991). As an example, Orru, Biggart, and Hamilton (1991) invoke the often drawn cultural similarities between East Asian societies, which would erroneously suggest homogeneity in organizational forms across these societies. "Cultural explanations at this broad level", the authors remark, "mislead us in focusing on primordial constants that undergrid everything" (1991: 365). There are many other variables in play, including the types of governing regimes, their economic policies, the legal frameworks, the stages in economic development, and resulting business norms. As Western organizations seek growth opportunities in emerging markets, they need not only consider cultural differences but a multitude of organization specific regulations, legal requirements, and business conventions. Beyond achieving a legal right to operate, moreover, in order for foreign organizations to be successful, they need to be accepted into the business and social networks, and be seen as a contributing community member. As Dacin, Ventresca, and Brent (1999) highlight, "economic activity does not occur in a social vacuum, but rather is nested in patterns of economic and social relationships", which constrain and provide opportunities for the interconnected actors (1999: 326). The concept that has been used to describe both the outcome of organizational efforts to garner social support and the homogenization effect of institutional pressures on organizational forms is legitimacy.

## **Legitimacy and Strategic Behaviour**

According to Suchman (1995), much of the work on legitimacy in organizational science draws from the seminal work of Weber (1978) and Parsons (1960). Perhaps the centrality that legitimacy as a concept occupies in a vast number of fields is a reflection of the social nature of man, who is defined by networks of relationships and by his or her place within them (Burt, 1993). As was pointed out earlier, organizations too are nested in webs of relationships and may be therefore as much constrained as they are empowered by the perceived legitimacy of their activities. Oliver (1996) defines organizational legitimacy (hereon legitimacy) as the extent to which “a firm’s means and ends appear to conform with social norms, values, and expectations” (1996: 167). The processes by which organizations come to appear conforming to the prevalent institutional pressures has been described from two angles. First, the traditional neo-institutional theorists focus on the homogenizing effect institutional frameworks exert on organizational forms. From a cognitive perspective, the very idea of an organization, how it looks and operates, is fashioned in the minds of individuals by their institutional environment (Porac, Mishina, and Pollock, 2002). As a socially constructed concept, the shared meaning ‘organization’ evokes is a homogenizing factor on organizational forms in a given framework (DiMaggio and Powell, 1991). Moreover, as managers face new challenges, they look at what their competitors and other firms in their environment have done for answers. Accordingly, neo-institutional theorists observe that the mimicking behaviours of managers can lead to strategy and procedural similarities between firms of a given field, however, they have also acknowledged it as a source of divergence due to imperfect replications and varying interpretations (DiMaggio and Powell, 1991).

Furthermore, organizational processes that were first established in response to certain problems long outlive these problems and persist by force of habit or taken-for-grantedness (Zucker, 1991). Oliver (1991) attributes the persistence of these ceremonial processes to the “*preconscious* acceptance of institutionalized values or practices” (149, emphasis added). ‘Preconscious’ is in the sense that a firm’s decision makers are not aware and thereby fail to recognize the possibility that these habitualized activities could be altered or changed. In sum, the traditionalists describe how the environment interpenetrates and homogenizes organizational forms without paying much attention to managerial discretion and organizational strategic options. Accordingly, Suchman (1995) adds that traditional “institutional researchers depict legitimacy not as an operational resource, but as a set of constitutive beliefs” (576). It is described as both a process and a state. It is the process by which social norms and conventions are perpetuated, and, “at any point in the process, the meaning of an act can be defined as more or less a taken-for-granted part of this social reality” (Zucker, 1991: 85).

Managerial discretion theorists, on the other hand, focus on ways by which organizations can actively garner social support. Earlier work in this tradition drew heavily on impression management literature and emphasized the use of symbolic language to legitimize organizational actions:

“Rationalizations or explanations for [organizational] behaviour are *constructed* so as to legitimate the organization to its constituents both within and outside its boundaries” (Pfeffer, 1981: 5, emphasis added).

The earlier described process by which the leaders of Alberta's Cultural Facilities and Historical Resources rationalized the government reforms to their constituents in order to facilitate their adoption is a case in point (Townley, 2002). Furthermore, the earlier works of discretionary theorists analysed an organization's actions in silos, independently from each other. In other words, a given management's rationalization of their firm's actions or behaviours needed not be consistent overtime. Later work in this tradition, however, identified a more substantive managerial role in garnering social support. The earlier conceptualization of management's control over organizational activities as limited to their legitimization through symbolic language was transformed to a more proactive role where management can manipulate organizational activity to build legitimacy. This resource view of legitimacy has gained widespread popularity in the literature and has been at the center of renewed theoretical and empirical developments in neo-institutional theories (Deephouse and Carter, 2005; Bitekhtine and Jorgensen, 2004; Greenwood, Suddaby, and Hinings, 2002; Peng, 2002; Ahlstrom and Bruton, 2001; Deephouse, 1999; 1996; Abrahamson and Hambrick, 1997; Oliver, 1996; 1991; Scott, 1994). In this view, legitimacy is depicted as an "operational resource that organizations extract, often competitively, from their cultural environment and that they employ in pursuit of their goal" (Suchman, 1995: 576). The variations in the manner in which and the degree to which organizations gain legitimacy through strategic behaviours has enabled neo-institutionalism theorists to explain differences between organizations of the same field and/or in the same institutional framework. In her research study on the relationship between institutionalization and uniformity using perceptions of an autokinetic phenomenon, Zucker (1991) had anticipated that "variation in strategic

response to the same environment can engender differentiation rather than isomorphism” (105). In her widely quoted theoretical work, Oliver (1991; 1996) has cemented the resource view of legitimacy in neo-institutionalism by integrating economic principles derived from resource-dependency theory into a neo-institutionalist based theoretical framework. She describes an organization’s motives to pursue legitimacy in terms of transaction costs and social capital. First, firms that tap into the prevalent institutional arrangements of their market, either as a result of preconscious embeddedness or strategic efforts, reduce uncertainty and opportunism by facilitating their access to information. These firms therefore “exhibit lower coordination, monitoring, and transaction costs” (Oliver, 1996: 177). Second, social capital is unevenly distributed across firms and may be acquired by appearing to conform to institutional pressures and by affiliating to key public or business groups. Firms competitively seek social capital “because their perceived legitimacy influences their capacity to attract and retain resources, customers, and exchange customers” (Ibid). The hypothesis that firms need to acquire legitimacy in order to succeed in their environment has found support in Ahlstrom and Bruton’s (2001) exploratory comparative study of American and Chinese joint ventures and local private Chinese firms operating in mainland China. The authors found that firms that effectively respond to local pressures without so much compromising their corporate goals are the ones successful in China. Establishing business relations, *Guanxi*, and keeping local officials content by ‘sharing’ profits are some of the strategic behaviours successful firms in China engage in. Firms must gain and maintain organizational legitimacy or their “ability to pursue [their] goals and accumulate resources can be substantially reduced” (Ahlstrom and Bruton, 2001: 234). In respect to international management, the resource

view of legitimacy is not only an acknowledgment that host countries' local institutional frameworks matter, but it goes further in recognizing that foreign firms can, and many do, actively manipulate local institutional pressures in order to align legitimacy building efforts with corporate goals. In other words, firms gain legitimacy by responding and being *perceived* as conforming to local institutional pressures.

An important characteristic of legitimacy as a resource has found support in a recent study by Deephouse and Carter (2005). The authors investigated the relationship between legitimacy and reputation at the organizational level. A key conceptual difference between these two constructs is while legitimacy draws on the perceived conformity of an organization's behaviours and activities to social expectations, reputation draws on the perceived standing of an organization in comparison to one or more other organizations. Of particular relevance are the authors' findings about the banks achieved *legitimacies*. Drawing on Ruef and Scott's (1998) work, they focused on legitimacy as the banks' conformity to regulative and normative institutions. It was found that firms who appeared conforming (isomorphic) to their industry's conventional strategies had higher scores on both legitimacy dimensions. Moreover, firms who were not perceived as conforming to either regulative or normative institutions had respectively lower scores on regulative or normative legitimacy. This is particularly revealing because it suggests that a given firm may concurrently be legitimate on one dimension but may lack legitimacy on another.



This brings us to an important property of legitimacy, multidimensionality (Bitektine and Jorgensen, 2004). Regulative, normative, and cognitive institutions exert conforming demands on organizations (Ruef and Scott, 1998). Effective strategic responses to any of the three types of institutional demands will gain a corresponding type of legitimacy, “each giving rise to a distinctive basis of evaluating legitimacy” (Scott, 1994: 878). Accordingly, the three types of legitimacies identified in the literature are regulative, normative, and cognitive (eg. Suchman, 1995). The multidimensionality of legitimacy stipulates that a firm may be judged as legitimate on one dimension but not another. For example, while a firm may be considered legitimate by the authorities for its conformity to governmental regulations, it may see its normative legitimacy challenged by environmental groups for failing to keep up with its industry on the implementation of environment safe processes. To avoid punitive outcomes and isolation, organizational responses to institutional demands must appear conforming to these institutional demands. Abiding by the prevalent institutional rules and business practices of a given firm’s environment is the simplest way to gain legitimacy (Ahlstrom and Bruton, 2001). The rule of thumb echoed in the literature is that isomorphism legitimates (Meyer and Rowan, 1991; Deephouse and Carter, 2005). However, some foreign firms may find that altering their processes and activities in order to accommodate the local institutional demands is more taxing on their ability to achieve their strategic goals than it is rewarding in securing potential resources. The literature identifies at least three alternative strategic responses to institutional demands, namely, conforming, manipulating, or selecting (Suchman, 1995; Oliver 1991). In support, Ahlstrom and Bruton (2001) found that successful American firms operating in mainland China were

able to minimize the effect of institutional demands on their forms by either manipulating institutional demands or selecting an institutional environment within China more accepting of their status quo. A ‘manipulate’ strategy requires that the firm redefines the institutional demand in terms of other established norms that are more accommodating to the firm’s form. Oliver (1991) defines the ‘manipulate’ strategy “as the purposeful and opportunistic attempt to co-opt, influence, or control institutional pressures and evaluations” (1991: 157). According to Suchman (1995), the three strategies highlighted, “clearly fall along a continuum from relatively passive conformity to relatively active manipulation” (1995: 587). Moreover, firms may also voluntarily or unconsciously ignore a given institutional demand (Suchman, 1995). Ignoring is never undertaken to gain legitimacy, quite the contrary, ignoring an institutional demand “may severely deplete the organization’s long-term legitimacy reserves” (Ibid: 598). Regardless of which strategy the firm chooses in response to local institutional demands, the key to gaining legitimacy is for the firm to *appear* conforming (Oliver, 1996). Even in times of institutional change, as Greenwood, Suddaby, and Hinings (2002) discovered, the alternative practices and logic will only be legitimate reform options if they are perceived consistent with prevalent values. Gaining organizational legitimacy is therefore not contingent upon adopting a ‘conform’ strategy in response to institutional demands, rather “what matters is the demonstrated [i.e. perceived] conformity of innovation with the values embedded in traditional beliefs” (Ibid: 75).

In a given society, differences between organizational forms may be attributed to firms’ diverging, but potentially legitimate, strategic responses to institutional demands.

This leads us to consider the following question, ‘for a given institutional demand, what influences a firm to adopt a given strategic response over another strategic option’? In other words, in response to a given local business convention, for example, why do certain firms choose outright conformity, while others engage in more active manipulation? Unfortunately, there is a dearth of research addressing this question. Neo-institutionalism theorists are at the stage where they have effectively explained why firms may be similar or different; however, they have not yet decisively explored the motives behind firms’ strategic choices. Integrating the resource and traditional perspectives of neo-institutionalism may provide the necessary leverage to begin exploring this question. A key concept that may help in achieving this leap is organizational identity.

### **Organizational identity**

Of particular relevance is the concept of identity as one “that organizations use to *characterize* aspects of themselves (i.e. identity as a self-reflective question)” (Albert and Whetten, 1985: 264, emphasis added). Organizational identity is shared and upheld by the firm’s constituents (Hatch and Schultz, 2002), and it gives us a window into management’s interpretative thought patterns as they consider and respond to issues (Rughase, 2002). In other words, at the organizational level, organizational identity is the ‘interpretative box’ through which a firm perceives, interprets and evaluates environmental pressures. By interpretative box, I refer to the set of self-defining values and cognitions that enables a firm to interpret environmental pressures in relation to itself. Indeed, “cognitions relating to identity are powerful filters through which people

make sense of their surroundings” (Fiol and Huff, 1992:278). The attribution of individual level identity analysis at the collective, such as organizational identity and cognition, has been at the center of Jenkins seminal work (1996: 20):

“[T]he self [is] an ongoing and, in practice simultaneous, synthesis of self definition and the definitions of oneself offered by others. This offers a template for the basis model...of the internal-external dialectic of identification as the process whereby all identities – individual or collective – are construed”

Following in Jenkins footsteps and building on Mead’s ‘I’ and ‘me’, Hatch and Schultz (2002) developed a conceptual framework that maps the interactions between organizational culture, identity, and image. The interaction between culture and identity is bi directional where culture is expressed in the organizational identity, and, simultaneously, organizational identity reflects embedded and taken-for-granted cultural elements. Similarly, there is a bi directional interaction between image and identity, where the image is the impression (on others) of the expressed identity, and, identity mirrors how the firm perceives others to perceive it. This is particularly revealing in the international context where business groupings are often built on the basis of organizational national identity. For example, in Dubai, UAE, the vast majority of Canadian firms operating in the region hold a membership in the Canadian Business Council of Dubai, (CBC of Dubai, 2004). Accordingly, what these foreign firms share is an exclusive national identity, which is reinforced through association to other foreign national firms in the region, and confirmed by being perceived by their environment as such. Indeed, as Ashforth and Mael (1996: 40) highlight, “social validation is ... required

to sustain an organizational identity”. In an international context, therefore, national identity is a salient part of organizational identity. Furthermore, the way an organization defines itself has an influence on its choices of strategic action, which, in turn, infer or affirm the organization’s identity. In the international context, therefore, an organization’s national identity may moderate its choice of strategic response to a given institutional demand. In short, organizational identity “can act as a counterweight to competitive and institutional pressures to imitate widely-accepted practices” (Ibid: 33).

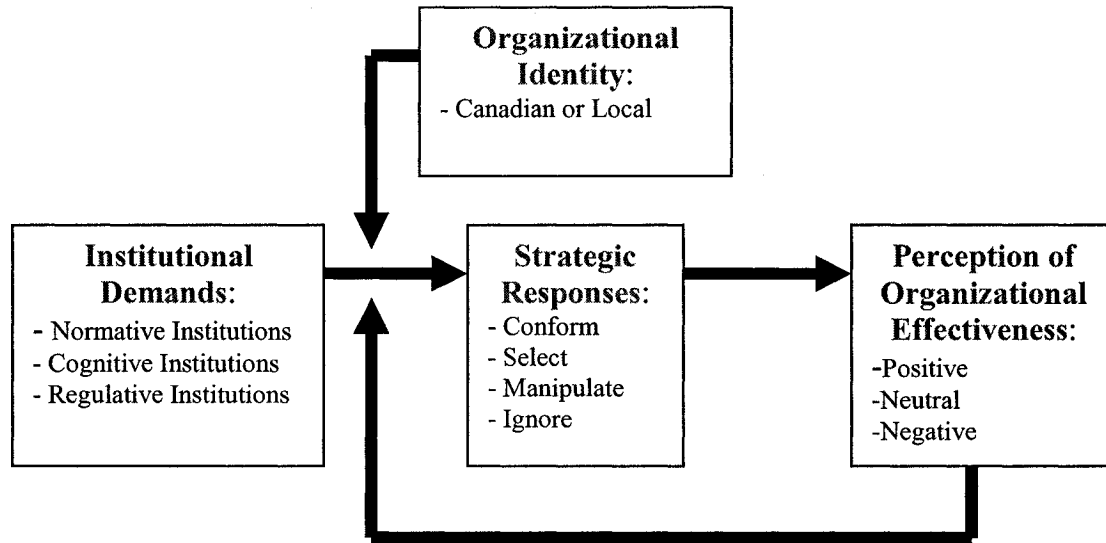
Habitualized behaviours that are characteristics of the way a firm defines itself may be reflected in other firms who define themselves, or part of themselves, in the same way. More importantly, in an international context, similarities or differences in strategic behaviours across firms may be explained, to a certain extent, by organizational national identity. As Ashforth and Mael (1996: 20) put it, “a sense of self-definition, of organizational identity, is critical because of its tremendous potential to motivate and shape strategic choice and action”. Clearly, all firms engage in strategic and habitualized behaviours in response to environmental pressures. As was stated earlier, the traditionalist and resource views of legitimacy simply approach the phenomenon from different perspectives. Organizational identity links both approaches and may prove decisive in explaining similarities and differences between firms’ choice of specific strategic undertakings and perceptions.

## EMERGING THEORETICAL FRAMEWORK

Invariably, every market has a set of institutions that regulate and define economic activities. The 'new' economies may be developing in a way that integrates and blends traditional practices and beliefs with international conventions and standards. In these economies, like in all others, competing logics co-exist and are used to rationalize the persistence of traditional practices and the institutionalization of reforms. The remarkable characteristic of these markets, specifically due to the increasingly globalizing business, is that they often harbour completely diverging institutional logics, including those integral to Western firms' *modus operandi* and those of local firms building on traditional practices. The transition from a traditional to a modern economy is a dynamic transformation that pits age old practices and values against international practices and capitalist values. The adaptation and adoption of some traditional practices by local and foreign firms may signal their preservation as an integral part of the dynamic landscape. On the other hand, the capacity of local and foreign firms to bypass some traditional practices by adhering to a legitimate competing institutional logic may signal the extinction of these traditional practices and the institutionalization of more modern ones. Organizations do not all respond to institutional constraints the same way, at the same time, however, organizations do not all respond in different ways either. The way an organization defines itself may be a moderator to the manner in which it will respond to what it perceives as an institutional constraint. As was pointed out by Oliver (1991), once a strategic response becomes pre-conscious, the institutional constraint that evoked the initial response is no longer seen as a constraint, rather, like the habitualized response, it becomes embedded in the cognition of the organization. The following theoretical

framework has been developed based on the literature review and illustrates the above discussion.

Figure 1: Theoretical Framework



### **Institutional demands**

There are three sources of institutional pressures according to the literature. Ruef and Scott's (1998) widely used typology includes normative, regulative and cognitive institutions. A Canadian organization that sets up in UAE, for example, may identify conforming demands from regulative and governmental bodies that may include the sponsorship institution, from normative institutions that may include the prayer institution, and from cognitive institutions that may include the local work week.

### **Strategic responses**

The literature identifies three legitimacy building strategies. A firm can choose to outright conform to an institutional demand, manipulate the institutional demand, or select an environment that values the firm's current form. For example, a Canadian firm setting up in UAE will gain regulative legitimacy by choosing to conform to the

sponsorship institution by partnering up with a local sponsor. Alternatively, the firm can gain regulative legitimacy by selecting an environment within UAE that does not require sponsorship, such as setting up in a free trade zone. The firm can gain regulative legitimacy by manipulating the sponsorship demand by drafting side-contracts with the sponsor that effectively limits his control, ownership and influence over the firm. Finally, while a firm cannot gain legitimacy by ignoring an institutional demand, it may deem that a given demand is of little significance and thereby simply ignore it. While it is difficult to conceive of a firm that would ignore the sponsorship institution, there are many other non-legal institutional demands that a firm may perceive but choose to ignore.

### **Effectiveness**

It has been theoretically and empirically shown that lacking legitimacy negatively impacts organizational performance (Ahlstrom and Bruton, 2001; Scott, 1994). In other words, strategic organizational responses to institutional demands that do not appear conforming to a legitimate institutional logic will negatively impact that firm's performance. For example, an American firm operating in China that does not 'support' local officials will not be effective in securing governmental contracts (Ahlstrom and Bruton, 2001). To a certain extent, strategies that build legitimacy increase the firm's effectiveness in securing resources and managing relations. In this way, effectiveness is a yardstick for legitimacy. Oliver (1991) suggests the polling of management's perceptions to account for the effect a given strategic choice had on organizational performance. Along the same lines, I am interested in the interpretative side of performance, that is management's perceptions of the extent to which a specific strategic response, or the sum



of strategic actions affected performance. I focus on two self-report measures of performance. First, management's perception of specific impact a given strategic response to an institutional demand had on effectiveness may play a role either in re-evaluating their response or in their future choices of strategic responses to similar institutional demands. Effectiveness is defined as the extent to which a specific strategic response is perceived to have impacted the firm's defined strategic objectives (positive impact, no impact, or negative impact). Moreover, on a broader perspective, management's self report of overall performance in the context of responding to institutional demands may help in identifying patterns of effective strategic responses in UAE's institutional context. Overall performance is defined as management's general impression of the extent to which their strategic actions compare to their expectations in reaching their firm defined strategic objectives (above expectations, meets expectations, or below expectations).

### **Organizational identity**

Differences and similarities in the manner in which firms define their identity may explain convergence and divergence in strategic responses to institutional demands. When operating in an institutional framework that significantly differs from that of their home countries, foreign firms may rely on what they value in facing uncertainty (Peng, 2002). Moreover, in an internationally populated market such as UAE, a broad reference to identity, such as national origin, and the implied belief system may suffice in explaining variations in perceptions across organizations. In other words, in a multinational firm environment, national identity becomes a salient part of organizational

identity. Furthermore, the manner in which firms perceive, interpret and evaluate environmental pressures necessarily affects their choice of strategic action.

Organizational interpretative processes, such as assigning meaning to institutional demands, are guided by the firm's identity (interpretative box) (Fiol and Huff, 1992; Albert and Whetten, 1985). Therefore, organizational national identity may moderate the relationship between institutional demand and a firm's strategic response.

## **METHODOLOGY**

### **Research Questions**

The study presented in this thesis is geared towards answering three research questions. Institutional demands exert conforming pressures on all firms. The concept ‘strategic responses’ assumes some levels of active manipulation on behalf of firms in response to these conforming pressures. Therefore, the first element to establish is whether there exists variation between firms’ strategic responses to UAE institutional demands.

The second question to explore is whether there are demand-response combinations that are consistently rated higher than others in their effect on organizational performance. Strategic responses perceived as ineffective will be re-evaluated and potentially changed. Firms evaluate strategic responses on their impact on performance. Strategic responses perceived to be most effective will endure and may become widespread shedding light on the fate of the institutional demands that produced them and on the evolution of the institutional framework

A third issue to explore are the motives behind a firm’s strategic choice. A potential concept that may be moderating the link between institutional demands and firms’ strategic responses is organizational identity. In order to determine its explanatory potential, the third question to explore is whether there are differences in organizational

strategic responses to institutional demands between firms with a Canadian identity and firms with a UAE identity.

### **Research Design**

To answer the above questions, data was collected along the four variables of the conceptual model and the relations between them. The research is a qualitative field study that involves two purposive samples, namely Canadian and UAE organizational sub-groups. The benefit of including two organizational groups is threefold. First, the degree and content of specific adjustments made by Canadian firms in response to the local UAE environment allow the exploration of the extent to which local institutions have interpenetrated the foreign forms. Second, the extent to which local firms perceive and conform to international institutional pressures may clarify the nature of the transforming local institutional environment. Third, the two group design enables me to measure whether there are significant differences in perceived institutional demands and corresponding organizational responses between members of each organizational group. In other words, it facilitates the exploration of any moderating effect organizational identity yields on firm strategic choices and perceptions by producing variations along the identities parameter.

### **Study context**

The research data was collected through telephone interviews with executive officers of Canadian and indigenous firms operating in UAE. The UAE is both similar to and different from other Arab states. Despite the enormous difference between Arab

societies, three characteristics bind them in the construct of an Arab culture. First, Islam is the predominant religion and remains an important factor in social interactions with the Sunni branch accounting for no less than 85% of the adherents (Abdallah, 2001). Second, notwithstanding various dialects in the region, the classical Arabic language is taught throughout the region and remains a strong unifying force. Lastly, Arabs share a common history and tend to interpret past experiences through the same lenses. The modern Arab states, however, differ in at least three important ways. First, there are many forms of governance, some are monarchies, some are republics, and others are socialist States. Second, striking disparities exist between the socio-economic status of their societies, as some are among the wealthiest nations in the world (the Gulf States), while others are among the poorest (Sudan and Mauritania). Third and most important, Arab states have sought development differently as is reflected in their economic policies (Kaynak, 1986; Ajami, 1986). Riad Ajami's (1986:110) typology of the Arab States (Table 1 in Appendix) distinguishes three clusters of Arab States that form sub-cultures. The Gulf Cooperation Council (GCC) members, which include UAE, are identified as having a promotional policy towards foreign organizations and form the middle cluster. Moreover, despite their very traditional and conservative societies, the Gulf States are rich and eager to modernize quickly. Their rate of economic growth is among the highest in the world, while per capita consumption is comparably higher than the world's average (Kaynak, 1986). The UAE in particular has attracted a lot of international firms and investments because of its liberal economic policies, cheap foreign labour, and proximity to the Iranian, Indian and Chinese markets. Its main commercial city Dubai is often labelled as the crown jewel of the Middle East (Al Tamimi, 2003).

Some of UAE's traditional business practices that have been adopted by the modern state include a requirement that non-citizenship holders, who wish to establish a firm, partner up with a UAE citizen. The local partner, also known as a sponsor (*kafil*), must own no less than 51% of the firm's shares. Over the past decade, however, Dubai has instituted free trade zones, which are specific regions where foreign firms can own and control 100% of their shares. Moreover, Islam continues to play a major role in people's lives, and firms are expected to accommodate for religious practices of their Muslim staff by assigning a prayer room and allowing some degree of flexibility in working hours for prayer times. During the month of Ramadan, throughout which practicing Muslims fast from sunrise to sunset, the whole State (bureaucracy) comes near a total halt, and firms are expected to shorten work days, or at least do so for their Muslim staff (Williams, 1998). At the same time, however, over 80% of UAE's population consists of foreigners, and the business landscape is littered with foreign firms, both of which are being shaped and may be shaping UAE's institutional framework (Al Tamimi, 2003). UAE has truly become a natural experiment of the interaction between traditional society and modern international organizations.

### **Data Collection**

The research target population is Canadian and indigenous organizations that operate in UAE. The list of firms solicited was drawn from two sources, the 2004 Canadian Business Council of Dubai, and through established contacts in the city of Dubai. I made the assumption that data collected from an individual applies at the level of his or her organization. It is a reasonable assumption given that the research interviewees

are high ranking officials involved at the strategy level of their firm (Jenkins, 1996). A two phase solicitation technique was used. Letters addressed to the top officer of targeted firms were sent by mail, and included a general summary of the research. About a week after mailing the letters, I phoned the contacts of the target firms to schedule a date and time for the interview. Of the 37 targeted firms, a total of 12 agreed to be interviewed, one of which never actualized. The achieved response rate of 30% was slightly below the initial target of 40%, but is within the average response rate for this type of research (Larson, 2005). The sample firms were representative of UAE's firm population (for a description of UAE's firm population refer to Al Tamimi, 2003) in terms of industry (construction, advertisement, legal services, food and beverages, transportation, air carrier, hostelry, financial services, consulting, and logistics), organizational size (varied between 1 employee and 20000 employees), and organizational age (varied between 1.5 years and 30 years) as summarized in Table 2 for the entire sample and in Table 3 for averages by sub-sample (Appendix).

In total, eleven interviews were conducted, ten over the phone and one in person. All interviews were recorded with the exception of one where the interviewee exercised his right of not consenting to being recorded. In the latter case, detailed and comprehensive notes were taken during the interview. On average interviews lasted 60 minutes. Following each interview, a summary of the interview highlighting the main points was written up using notes taken down during the interview. A structured questionnaire was used for the interviews with mainly open ended questions designed to elicit the main institutional challenges that the firm has faced or is facing, how they were

managed and their effect on performance. The questionnaire was structured along four main sections. The first section was mainly composed of closed ended questions eliciting general information about the interviewees, their firm, and an open ended question about organizational identity. The three remaining sections formed the heart of the questionnaire and were organized around setting up, managing staff, and conducting business deals in UAE. The bulk of the interview questionnaire was organized around these three sections in order to capture firms' responses to institutional pressures, given that firms are more likely to encounter institutional demands in these business phases. Regulative institutional demands are more likely to be encountered in the setting up phases, while normative and cognitive institutional demands are more likely to be encountered in the two other phases where exchanges between the firm and local elements occur. Interviewees were asked to think in terms of their firm in discussing issues (refer to Table 4 in Appendix for interview questionnaire).

### **Coding**

Following the end of the data collection phase, the recorded interviews were transcribed separately on word documents. The coding of the transcripts consisted of labelling pieces of texts with concepts that "retrieve and organize the chunks of information" (Miles and Huberman, 1994: 57). In order to proceed with this initial coding, two sets of transcripts were coded independently by a second coder and me. I had trained the second coder and explained how the work was to be done prior to the coding. The chunks highlighted, concepts used, and notes written by each one of the coders showed a high degree of convergence. I proceeded in developing working



definitions for the identified concepts (refer to Table 5 in Appendix for the complete list of first level working definitions), which formed the basis of a systematic coding of the remainder of the transcripts. As unique concepts surfaced at various stages during the first coding run, they were noted, given a working definition, and were the basis of a second run through the transcriptions. At the end of the first run, I had a total of 310 entries, and at the end of the second run, the number of total entries climbed to 326.

The coded texts were organized in word documents by firm and listed all the surfaced text entries with their first level concepts codes and their respective context (i.e. interview section). Text entries and their codes were ordered as much as possible under the four sections of the interview questionnaires, but often other sections were created when emphasis was given by the interviewee. For example, a section on the merits of hiring local staff was often included. Moreover, firms were assigned random numbers between 01 and 11 to identify them and replace references to firms' names (see Table 6 in Appendix for 'concept summaries' document example). An aggregate concept summary Excel sheet was then developed that listed all the identified first level concepts with their support text and linked to both their organization code and interview section. A total of 53 first-level concepts were identified. An inter-rater reliability test was conducted by randomly selecting 30 text entries, roughly 10% of the total data, from the aggregate concept summaries Excel sheet using the 'RAND' function. The second coder was instructed to assign to each entry the most appropriate concept code from the list of concepts using the working definitions as a guiding tool. The test yielded 100% inter-rater agreement.

The second coding phase consisted of surfacing second level concepts that cut across the coded text entries. I proceeded by first sorting the concept summaries Excel sheet by concept, reviewing for each concept the supporting texts, and then making tentative 'similarity' links between first-level concepts. The step that followed consisted of reviewing the tentative links and, drawing on the concepts' working definitions, establishing higher order concepts that cut across two or more first level concepts and their supporting texts. These umbrella or source concepts were either first level concepts that, when broadened in scope, included other concepts, or were based on a central theme that cut across several concepts and therefore surfaced as source concepts. Following these two steps, the number of unique concepts went from 53 first-level concepts to 36 second-level concepts. For example, the concepts 'bribery' and 'commissions' were regrouped under the higher order concept 'inducement' (see Table 7 in Appendix for the links between first and second level concepts). Working definitions for these higher order concepts were developed and provided the guiding tool for an inter-rater reliability test. A (new) random selection of 30 text entries, using the 'RAND' function, from the aggregate concept summaries Excel sheet was coded with second-level concepts by the second coder. I had trained the second coder and explained how the work was to be done prior to the exercise. The test yielded 83.33% agreement. Differences were resolved through discussions. An important contribution of these discussions was an identified need to clarify within the working definitions whether a concept referred to behavioural or actions undertaken by the firm, or institutional pressures perceived by the firm. These clarifications were made in the working definitions of the second-level concepts (Table 8

in Appendix). These definitions played a supporting role in differentiating between types of concepts (institutional demand, response, identity, and resource) during the demand-response dyads analysis as explained below.

Organizational identity was determined through two processes, which drew on the coded texts from firms' responses to the interview question about how they perceived their identity. First, the firm's national origin, that is the national location of head office, constituted one part of its identity. The second part was surfaced by running through all text entries that were coded as organizational identity and inferring whether other identities coexisted. The types of identities that surfaced were Canadian, local, Canadian and international, and local and international. Interviewees from firms with hybrid identities (Canadian-international and local-international) emphasised an international dimension to their organizational identities. For example, one interviewee noted that, "we are an international company with employees from 90 different countries, our local identity stems from ownership, clientele focus, and head-office location". An inter-rater exercise was then conducted by having the second coder assign at least one identity to each of the firms, he was given as guide the complete list of text entries coded as organizational identity. The result yielded 80% agreement and disagreements were resolved through discussions. Interestingly, informants always referred to their national culture, or international focus or behaviours, or both, in defining what their organizational identity is. From this point forward, reference to 'organizational identity' refers to the firm's national identity, while reference to 'dual organizational identity'

encompasses the duality of identities where they exist. Table 9 (Appendix) illustrates the list of firms and their organizational identity (ies).

### **Demand-Response dyads Excel display sheet**

A second aggregate Excel sheet was developed in order to analyze similarities and differences between organizational responses to institutional demands, and, when possible, their effect on firm effectiveness. To arrive at this, I had to interpret the concepts and label them as institutional demands, strategic responses, identity, or overall performance, and how they interacted with each other. I began by identifying demand-response dyads within text entries of the Excel concept summary sheet. To achieve this, the list of concepts, which were linked to their organization, (dual) organizational identity, and text entries, was copied into a new Excel sheet. The Excel-based data sheet was then two-way sorted, first by concept followed by organization. I progressed systematically by running through all text entries of one concept, followed by a second run during which I noted, on a separate column entitled 'observations', links and directions between concepts, or the firm's level of conformity, when applicable, as they appeared in each of the entries for that concept. When mention of the dyads effect on performance was made in the text, it was also noted, resulting in triads. Not all entries suggested links, and none were then assumed. This process surfaced four types of concepts other than statistical<sup>1</sup> and (dual) organizational identity. There were 12 demand (institutional) concepts, which appeared to refer to sources of pressure on firms to conform, 9 response (strategic) concepts, which were particular ways in which firms

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<sup>1</sup> statistical concepts were those that referred to general information about the firm and interviewee such as firm size or individual experience

respond, 1 'resource' concept, which is social capital that firms can accumulate and use, 2 non-institutional concepts, which were operation-based demands, and 2 generic concepts, which related to general statements about firms operating in UAE (see Table 10 in Appendix for a complete list of concepts and their attributed type).

I progressed then by deciphering between regulative, normative and cognitive institutional demands using Ruef and Scott's (1998) definitional parameters (Table 10a in Appendix). For each concept identified as an institutional demand, I proceeded by systematically (re)running through all its text entries in order to determine in which of the three levels of Ruef and Scott's (1998) typology it fit. The authors inform us, for example, that normative institutional demands are prescriptions about what constitutes appropriate actions. Accordingly, the concept 'negotiation', which included, for example, the entry "you always need to haggle back and forth on everything, it's the rules of the game", was labelled as a normative institutional demand. There were also response concepts, which were then labelled along one of the four alternative strategic responses, namely conform, select, manipulate, or ignore according to Oliver's (1991) definitional parameters (Table 10b in Appendix). For example, Oliver defines the manipulate strategy "as the purposeful and opportunistic attempt to co-opt, influence, or control institutional pressures and evaluations" (1991: 157). Accordingly, the concept 'inducement', which included, for example, the entry "when it is necessary we pay the commission to close the deal", was labelled as a manipulate strategy, and in this particular case, the firm was responding to the 'negotiation' institutional demand.

From these dyadic or triadic observations, I built an aggregate demand-response-effect matrix, which was the base Excel sheet for institution-strategy analysis. In total there were 78 institutional demands-strategic responses entries, of which 60% were generated from the Canadian part of the sample, while 40% were generated from the local portion of the sample. This difference may slightly skew the results when analyzing aggregate variation in strategic responses according to organizational identity. This discrepancy is dealt with where relevant by comparing weighted ratios.

## ANALYSIS AND FINDINGS

### Statistical Variables

Statistical variables were coded text entries that provided general information about the firm and interviewee. They provide a snapshot of the generic similarities and differences between firms as well as a general sense about the nature of firms operating in UAE. Table 2 (Appendix) lists the values of these variables for each of the sample firms. A striking finding of this preliminary analysis is the pre-eminence of the English language as the primary, and often sole language of business, even for local firms. All firms identified the English language as their primary operational language, while a few mentioned Arabic as only secondary. A key notable difference is while none of the Canadian subsidiaries used Arabic, 60% of the local firms did. Three reasons help explain this finding. First, UAE has a substantial expatriate population that accounts for no less than 80% of total population (Williams, 1998). Therefore English, the international language of business, is a pragmatic solution to managing diversity even within local firms. As the general manager of a locally owned firm noted, “it is easier to communicate in English with them (staff) given this diversity”. Second, many of the firms cater to the needs of this diverse population and use English to communicate with them. Moreover, the substantial presence of Western firms makes English a natural choice for inter-firm interactions. Thirdly, while dealings with government agencies, especially in negotiations, often requires the use of the Arabic language, Western firms targeting that market segment may rely on their Arabic speaking agent or sponsor for support, whereas local firms rely on their local staff. On that point, the vice-president Middle East of a

Canadian construction company notes that, “at least one senior member must speak Arabic to be effective in meetings as 60-70% of business when dealing with government is in Arabic”. Therefore, while Arabic remains a key institutional factor in dealings with government, English has permeated much of the UAE business environment.

A second observation that merits elaboration is similarities and differences in firms’ ratings of their overall performance. The latter is a three level variable to which interviewees rate their firm’s overall performance as above expectations, meets expectations, or under expectations. The percentage distribution of ratings among the sample is as follows, 27% perceived their overall performance as under their firm’s expectations, 36% perceived their overall performance as meeting their firm’s expectations, and 36% perceived their overall performance as above their firm’s expectations. If we relate these statistics to the firms’ national origins, we find that 100% of the firms that rated their performance as under expectations are Canadian, while 75% of the firms that rated their performance as either meeting or exceeding expectations are Local. It is therefore clear that there are differences in firms’ ratings, and that these differences seem to be related to organizational identity.



## **Demand-Response Analysis**

The demand-response analysis was undertaken to explore similarities and differences in strategic responses between firms, demand-response patterns that were perceived to improve or impede firm effectiveness, and the relationship of demand-response dyads to organizational identity. The starting point of this analysis was the demand-response Excel matrix, which listed the actual perceived institutional pressure concepts by the firm's response concept as well as their effect where possible. From that matrix, a second institution-strategy matrix was developed which regrouped the 12 institutional demand concepts under one of three levels of institutions, namely, cognitive, normative, or regulative, and the nine 'strategic response' concepts under one of the four alternatives, namely conform, manipulate, select, or ignore. The concepts were labelled along these levels during the latter part of the coding phase as was described earlier (see pages 36-37). The difference between these two spreadsheets is while the former mapped the dyads or triads using second level concepts (e.g. 'local agency'-'control'-'positive'), the latter mapped them using institutional levels and strategic alternatives (e.g. 'regulative'-'manipulate'-'positive'). One set of institutional pressures did not easily fit Ruef and Scott's (1998) typology and was left as is under 'international standards'. The latter concept did not refer to one specific institutional pressure, rather it was referred to by interviewees as an alternative set of legitimizing practices often in contrast to the local traditional institutional logic. Other key variables integrated in the matrix include, organizational identity, overall performance, and effect of strategic response on firm effectiveness (refer to Table 11 in Appendix to view matrix).

The first consideration that the institution-strategy matrix affords us is the variation in responses across firms and across institution types (refer to Table 12 in Appendix). Out of 18 observations about perceived regulative institutional demands, there were 10 manipulate responses, 5 conform responses, 2 select responses, and 1 ignore. Many of the firms acted in ways to curb their sponsor's or agent's control over the firm. For example, while regulations require that foreign firms be 51% owned by a local sponsor outside of free trade zones, one means firms use to limit sponsor's control is, as one interviewee put it, "to use personal accounts to limit sponsor manoeuvrability in seizing company assets". In other words, instead of operating business cash flows through a business account, personal accounts are used, and, as the same interviewee notes, "bankers recognize and accept that". Other firms simply select to set up in free trade zones, where the sponsorship requirement is void. Despite the high costs of operating in these zones, firms perceive it as a fair trade against the sponsorship institution, "we set up in the Free Zone mainly to avoid the sponsorship...in the Knowledge Village (a free trade zone) we have 100% ownership". Local firms whose owners do not hold a UAE citizenship face the same type of regulative institutions as do foreigners, while those that do are exempted from the sponsorship and agent institutional demands. However, all the local firms who perceived regulative institutional demands conformed willingly, in fact 5 of the 6 conform strategies are local firms' responses.

There were a total 23 observations about perceived normative institutional pressures. Some of the concepts included in this construct, as listed in Table 10, are Islamic practices and negotiation. There were 14 conform responses, 6 manipulate

responses, and 3 select responses. For example, as one interviewee noted about negotiation, “you always need to haggle back and forth on everything, it's the rules of the game”. Other firms rather cut corners than have to conform to the often long negotiation process, and, for example, as one interviewee stated, “when it is necessary we pay the commissions to close deals”. Alternatively, given the large number of international firms, some firms choose to target these firms, thereby often conforming to international standards in negotiations. For example, as one interviewee noted, “we started doing business with Western businesses where we knew we can get business, and negotiation was straightforward”. Interestingly, the three select responses to local normative institutional demands were made in parallel to conforming instead to international standards. In other words, ‘selecting out’ of one set of institutional demands really means ‘selecting in’ to an alternative set of institutional demands.

There were a total of 13 observations about perceived international standard pressures, and while, as stated earlier, this concept grouped a set of institutional pressures, it appears to offer an alternative institutional logic in UAE’s business environment, through which a seemingly conforming firm will be perceived as behaving legitimately. Of the 13 observations about perceived international institutional pressures, there were 7 conform responses, and 6 manipulate responses. Some firms, who align themselves or part of themselves to the international institutional logic, including some local firms, often see a need to localize or manipulate these standards to fit the local environment. For example, one interviewee from a local firm stated that, “[We have] Western style offices with added modesty panels to bring modesty to our female staff”.

Modesty panels are boards that are joined vertically and downward to tables in order to cover the legs of women who decide to wear skirts. Of course, this is an indication that not only has the local institutional framework been shaped by international norms, but that the international norms have been shaped by local traditions through their application in UAE's business environment. Lastly, there were a total of 29 observations about perceived cognitive institutional demands. Of which, there were 27 conform responses, 1 manipulate, and 1 ignore. Interestingly, responses to cognitive institutional demands that did not involve direct conformity, that is the 'manipulate' and 'ignore' responses, had immediate negative effect on firm effectiveness. Firms were only able to be perceived as legitimate by outright conforming to the cognitive institutional demands; otherwise their behaviours seem to have been deemed as illegitimate by their respective context. As pointed out earlier, cognitive institutions are theoretically the hardest to manipulate, and often result in the redefinition of the actors rather than the institution (Zucker, 1991). This proposition has found support in this research, and the redefinition of the actors who do not outright conform to cognitive institutions is translated into direct negative impact on firm effectiveness.

This part of the analysis shifts focus on deciphering patterns of strategic behaviour that consistently affect the firm's effectiveness either positively or negatively (refer to Table 12a in Appendix). The analysis draws on the 12 noted observations in which interviewees cited a direct positive or negative impact on firm effectiveness as a result of specific institutional demand-strategic response dyads (what I have previously referred to as institution-strategy-effect triads, see Table 11 in Appendix). First, ignoring an

institutional demand, regardless of type, had a negative effect on firm effectiveness. Second, any attempt to actively manipulate cognitive institutions yielded a negative effect on firm effectiveness. On the other hand, manipulating regulative institutional demands can lead to a positive effect on firm effectiveness. In fact, the only mentioned positive effects on firm effectiveness in responding to regulative institutional demands were from strategic manipulation of the institutional demands. For example, as one interviewee noted, “we have decided not to sign an exclusivity with our distributor to keep them on their toes...our success is mainly due to working closer and in partnership with our distributor”. This is one of the few firms who undertook a two level strategy, by which it manipulated the agent institution while emphasizing conformity to the ‘relational’ institution (refer to Table 8 for description of ‘relational’ concept).

From a broad perspective, firms who rated their overall performance as above their expectations tended to manipulate or select out of local regulative institutional demands, conform to both normative and cognitive institutional demands, as well as respond to international standards. Whereas firms who rated their overall performance as under expectations tended to manipulate or ignore local regulative institutional demands, engaged in active manipulation of normative and cognitive institutional demands, and were much less likely to respond to international standards in relative comparison to firms with higher performance ratings. There are therefore differentiable patterns of strategic responses between firms on the basis of performance (refer to Table 12 in Appendix).

There were notable differences in strategic responses between firms of differing organizational identity. Before exploring these differences, it may be worthwhile to underline that there were no substantial differences in terms of perceived types of institutional demands between firms of differing organizational identity. Consider for example that of the 13 perceived international standards pressures, 8 were perceived by either local or local and international firms, while 5 were perceived by Canadian or Canadian and international firms. Similarly, of the 29 perceived cognitive institutional demands, 12 were perceived by either local or local and international firms, while 17 were perceived by Canadian or Canadian and international firms. It may be convenient to argue that the non-foreign sub-sample perceived less cognitive institutional demands because these types of demands are based on values and practices which are embedded and thereby taken-for-granted by them. However, the fact that local firms perceived 41% of the total perceived cognitive institutional demands seriously challenges such a conclusion. Of course, a similar argument may be made about differences between perceived pressures from international standards, in that the non-local sub-sample takes for granted many of these norms and thereby less likely to perceive them as conforming pressures, however, Canadian firms did perceive 38% of the total international conforming pressures, thereby also seriously challenging this claim. In sum, this research found no substantial differences between the perceived types of institutional demands on the basis of organizational identity.

From an overview perspective on the differences in strategic responses between firms of differing organizational identities, four observations can be made. First, 74%

(62% adjusted<sup>2</sup>) of all the ‘manipulate’ strategic responses were undertaken by Canadian firms. Second, 80% (67% adjusted<sup>3</sup>) of all the select strategic responses were undertaken by Canadian firms. All of the ignore responses were undertaken by Canadian firms. Finally, 50% (42% adjusted<sup>4</sup>) of all the ‘conform’ strategies were undertaken by Canadian firms. This evidence suggests that local firms were more likely to conform and uphold local traditions and practices, while Canadian firms tended to seek, where possible, ways around the local institutional demands. Moreover, it is further evidence that organizational identity may play a moderating role on a firm’s choice of what strategy type to undertake in response to institutional demands in an international context. Furthermore, the effect of a strategic response on a firm’s effectiveness seems, when clearly positive or negative, to either strengthens or reshapes the firm’s organizational identity. For example, one interviewee noted that, “the company model is Canadian, and we did not want to compromise that in the beginning....we decided to step away from that model to adapt it”. This change in approach and broadening of the self definition of the firm is due to the poor performance of the firm in developing business with government, however, as the interviewee adds, “since we started to listen to our partner and localize, we have improved our performance”. Another interviewee noted that, “we are definitely an international company...at [company code 09], we believe that we should drink the local wine....our success is mainly due to working closer and in partnership with our distributor”. Their success in localizing through partnering with local agency seems to have reinforced their identity as an international firm. Hence, the

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<sup>2</sup> The data was overrepresented by the Canadian sub-sample representing 60% of total data. To adjust for this discrepancy the following equation was used in this case :  $0.74 * (0.5/0.6) = 0.62$

<sup>3</sup>  $0.80 * (0.5/0.6) = 0.67$

<sup>4</sup>  $0.5 * (0.5/0.6) = 0.42$

data seem to portray a dynamic or fluid nature of organizational identity, which moderates a firm's strategic response and is reinforced or redefined through the effectiveness of these responses.

There were also notable differences in strategic responses within each sub-sample between firms with hybrid identities and singular identities (dual organizational identity). Within the Canadian sub-sample, while firms of either type of identities (Canadian or Canadian-international) engaged in active manipulation (either manipulate or select type responses) of regulative institutional demands, only firms with the singular Canadian identity manipulated normative and/or cognitive institutional demands. In fact, 100% of the manipulate or select responses to normative or cognitive institutional demands within the Canadian sub-sample were undertaken by firms with the singular Canadian identity (refer to Table 13 in Appendix). In consequence, Canadian firms with the singular identity were more likely to perceive their strategic responses as having a direct negative effect on the firm's effectiveness. In fact, 75% of negative effects perceived by interviewees of the Canadian sub-sample were a result of non-conformity to normative or cognitive institutional demands. On the other hand, while all firms within the local sub-sample conformed to regulative and cognitive institutional demands, only firms with a hybrid identity (local-international) manipulated perceived pressures from international standards. Moreover, local firms with a hybrid identity were more likely to perceive and respond to pressures from international standards. In fact, 75% of the international standard and firm response dyads observed within the local sub-group were associated to local firms with the hybrid identity (refer to Table 14).



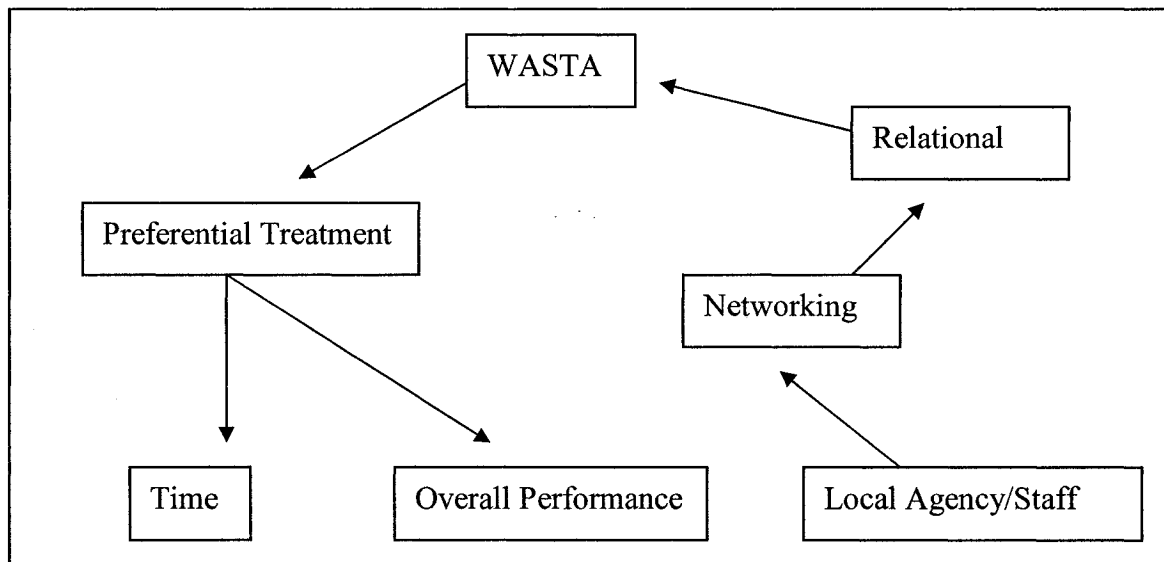
## **Resource mapping analysis**

An important contribution of this research has been the surfacing of social capital elements within the institutional framework of UAE. 'Wasta' has been defined by interviewees as "political clout and influence", "contacts or influence", and "connections and contacts". There is no English equivalent to this concept, but it does tap into both the concept of connections, in terms of having key contacts, and the concept of influence, in terms of utilizing the contacts to override institutional processes or to otherwise advantage the firm. Interestingly, informants referred to 'Wasta' in discussing their efforts to bypass some of the cumbersome bureaucratic processes or in increasing their chances of securing government contracts as is detailed hereunder. In order to unlock the workings of this concept, it is important to understand that while UAE is a modern bureaucratic state, status and power do buy privileged treatment in its society. The privileged individuals are for the most part locals that are members or friends of the ruling families. However, within each government agency, there are key people who are above the established processes and can use their influence over their department or call upon their own secondary contacts in other departments for favours. Firms compete to make the acquaintance of such key agencies because it is through them that they may 'buy' preferential treatment. If a relation with these contacts is not maintained, Wasta is depleted, while the use of Wasta diminishes its reserve and requires higher maintenance of the contacts to replenish it. Wasta is an institutional artefact, but differs from institutional demands in that it's finite, transferable, and spent in exchange for preferential institutional treatment, hence the term institutional resource.

The extent to which Wasta is cultivated and expensed by firms maybe under-represented in the data because it was not part of the theoretical model, and therefore none of the interview questions put to interviewees directly elicited how, if at all, it was acquired and used. Through discussions with interviewees, however, Wasta surfaced as a key institutional resource in manipulating negotiations or bureaucratic processes. Of the 10 observed manipulate responses to regulative institutional demands, two were directly undertaken through use of Wasta. Interestingly, in both cases, interviewees perceived their firm's manipulate responses through use of Wasta as having had a direct positive effect on firm effectiveness, which accounts for 40% of the total perceived positive effect from responses to regulative institutional demands. Moreover, of the 6 manipulate responses to normative institutional demands, one was directly undertaken through use of Wasta. Interestingly, it is only one of two (50%) manipulate responses to normative institutional demands to have been perceived as having had a direct positive effect on firm effectiveness. Furthermore, of the 212 total coded text entries, 12 referred exclusively to the concept 'Wasta', and were coded accordingly. In these text entries, interviewees made general comments about Wasta in the UAE context, which, although no demand-response dyads were substantiated from these general comments, gave a general sense of the importance and nature of Wasta (refer to Table 15 for listing of Wasta text entries). Other concepts that were raised by interviewees while discussing Wasta, include 'local agency', 'local staff', 'networking', 'relational', 'preferential treatment', 'time', and 'overall performance'. Figure 2 in the text maps these

interconnecting institutional elements around the resource theme, and I provide citations as evidence in detailing the interconnections between these concepts.

Figure 2: Mapping Wasta



The map reads as follows. Local nationals are a close knit group; therefore the usual way for the firm to infiltrate and make key acquaintances is through either local staff or the firm's agent or sponsor, who are by definition local nationals. As one interviewee noted, "here, it's based on who you know, and not what you know, and locals are key for that". Along the same lines, another interviewee noted that, "locals are effective in

intergovernmental relation, the local community is small and it's easier for them to network". The time and effort must then be taken to establish a good relationship with these acquaintances, so that they may become contacts, and, in turn, the firm becomes contact for them. This is not particularly surprising in business where relationships, partnerships and reputation are important elements for success, but as one interviewee highlighted, "you have to take the time to build relationships, know the person before diving into business...like everywhere else, only more pronounced here" Once acquired, Wasta can then be exchanged against preferential treatment. Emphasis must be made here that Wasta is not the connections or contacts themselves but an acquired potential influence that is cultivated and shared within a network of contacts. In one example, a firm experienced difficulties in processing documents at the ministry, so the owner called one of his key contacts who happened to know someone important at the ministry. The owner's contact then called his own contact at the ministry to buy leniency in treatment for the owner's firm. In other words, the owner's contact paid from his own Wasta reserve to bypass some of the red tape for the firm in question. Of course, the contact's contact at the ministry now expects that the latter will scratch his back when he calls upon him. Similarly, the owner, as he expressed, knew that his contact expected him in turn to expense some of his own influence if called upon. The contact at the ministry, as the interviewee speculated, called on the officer who was processing the firm's file, gave him "a little baghshish (i.e. tip) or present", and asked him to ease up on the firm's file. Moreover, Wasta is also crucial for getting contracts with government agencies. It is not for the firm to attempt bribing officials, as this is illegal and leads to severe repercussions as was experienced by a Canadian firm, "very rigid scrutiny for any kind of bribery, the

reason why we lost the (government) contract”. As the interviewee had explained, they lost the contract because of suspicion, rather than proof, of bribery. Yet, at the same time, as another interviewee noted, “no deal is conducted without proper inducement and influence”. The key for this paradox is to cultivate and use Wasta, the currency of the UAE institutional framework, which, unlike bribery, is not based on money, but, rather, on influence.

In sum the data suggests that firms who have Wasta improve their chances of getting contracts, closing deals, and bypassing bureaucratic processes, hence gain competitive advantage over other firms. In many ways, Wasta was expensed in an effort to manipulate regulative (bureaucracy) or normative (negotiation) institutional demands through appeal to an established cognitive norm, preferential treatment. Therefore, in relation to the developed conceptual framework, Wasta seem to give firms leverage in responding to institutional demands.

## DISCUSSION

UAE is a modern country with its principal business city, Dubai, recognized for being a very well governed city with ultra-modern infrastructure, business friendly policies, and a prime location to launch and manage operations in neighbouring states. This in itself is a great accomplishment for the country's administrators who set out less than 30 years ago to modernize and internationalize a small desert town overlooking the Persian Gulf, whose principal economies were pearl trading, bazaars, and fishing (Al Tamimi, 2003). Dubai's evolution sounds like a tale from the 'Thousand and One Nights'. Renowned for glamorous and audacious projects, like the world's only six star hotel, Bourj Al Arab, or the immense residential stretch of man made islands forming the shape of a palm tree often described as the eighth wonder of the world, Dubai has attracted world attention and considers itself a model for developing countries...or so is the image it wants to project. While old structures were destroyed and replaced with enthralling projects, and ultra-modern eight lane highways built over caravan and camel tracks, "in many ways", as one interviewee put it, "Dubai is still a sleepy fishing and pearl trading village". The traditional ways the people of UAE have 'always' traded and interacted with each other, somehow, were not completely overwritten nor have the locals completely reprogrammed. It appears that many of the long-established behaviours simply infiltrated and, in many ways, localized the forced modernization of the country and its society. A disgruntled interviewee expressed his dismay at the degree of red tape in UAE by noting that, "quality of work is not a motto here. It's like being in Iran here, I mean, I wouldn't see the difference between here and Iran, it's the same people working,

or in Syria, or in Jordan, except here the officers look much more modern with equipment, but they haven't changed the people". This should come as no surprise to neo-institutionalists since institutionalized behaviours are resilient, transmitted across generations, and, while they can be replaced with active efforts, never simply fade out (Zucker, 1991). UAE's societies appear therefore ultra-modern, but a thick layer of traditionalism lay deep in its foundation.

### **Institutional Logics**

The country's institutional framework harbours two dominant institutional logics, one based on international practices, and one based on, if not the offspring of, traditional practices. Organizational forms are, simultaneously, shaped by any combination of these two value spheres, and perpetuate them either through strategic or embedded behaviours. On one hand, firms in UAE recognize, be it consciously or unconsciously, and act in ways that reflect the unique underpinning values of the sheikhdoms. The remarkable emphasis on and efforts towards building relationships, knowing the individuals before discussing business affairs, working in partnerships, and developing a good reputation in the field, suggest that conducting business in UAE is, at its heart, a relational affair. These unique institutional traits of the local market have their origins in the tribal background and oral traditions of the local societies (Abdallah, 2001; Cole, 1992). Consider that, for example, while Americans identify most strongly with their profession and Japanese with their company, Gulf Arabs will first ask their counterpart for their family name and introduce themselves by emphasizing the extent of their clan (Williams, 1998). Moreover, relationships and reputation are particularly relevant in oral societies

and Gulf Arabs have historically relied on them particularly for commerce and partnerships, where caravans often travelled for long periods and were constantly under threat of being raided (*Ghazwa*) by local clans. To a certain extent the relational traits were born out of a need to deal with uncertainty but soon became taken-for-granted and ingrained codes of conduct. Indeed, as the results suggest, the grand majority of firms conform to the relational underpinning of doing business in UAE and gain legitimacy on that level. However, the few occasions where firms overlooked or attempted to manipulate the relational norms, the effect were directly negative, and those firms, shortly after, took steps to realign themselves along these norms.

On the other hand, there is a strong desire among firms to meet and behave in accordance with international norms. There are three factors that have normalized organizational appeals to international standards in UAE, occasionally in contrast to traditional practices. First, the image that UAE in general, and Dubai in particular, project of themselves is that of an international business hub, and much of the administrators' efforts were and are directed towards that end. This is reflected, for example, in the government's promotional policies, investments in infrastructure, and in its international open bidding system for developmental or consulting projects. And despite strong religious objections, the city of Dubai has allowed alcohol, pubs, clubs, and other entertainment to accommodate the international businessmen. Second, the substantial ratio of foreign workers and residents in UAE has put some pragmatic pressures for the institutionalization of the English language, the institutionalization of standard training and HR in general, and the institutionalization of standard marketing



and service delivery to capture the expatriate market. Thirdly, the large number of international firms, especially in free trade zones, has meant that local firms at times compete against international firms, inevitably inducing mimicking. It has also meant that interactions among international firms occur regularly, thereby keeping international norms vigorous within the processes and business practices of these firms. The presence of a large number of international organizations has also engendered a support industry, made up of local and foreign firms, that caters to the needs of these firms, thereby broadening the dominance base of international practices. Indeed, the international institutional logic is well entrenched in the institutional framework of UAE. As the results reveal, the English language has replaced the Arabic language in most business operations and dealings, so much so that there were no firms that did not conform to this international norm. Similarly, the long negotiation processes that were norm only a few years ago are beginning to erode in some areas as even local firms signal conformity to 'international negotiation standards'. Apart from dealings with government, firms that conform to either traditional or international negotiation seem to be perceived as legitimate.

While the two predominant institutional logics may appear competing, the results suggest that they coexist and provide alternative legitimate organizational behaviours in UAE. Their coexistence also allows the stipulation, according to Friedland and Alford's (1991) conceptualization of institutional change, that the country's institutional environment is dynamic and transforming. It would be narrow sighted to speculate that one of the institutional logics will come to dominate all aspects of the business

environment overtime. The fact that firms legitimize some of their actions and reactions by appealing to either one of the two value spheres suggests that elements of both will be perpetuated and may eventually, but not necessarily, converge into one homogenizing hybrid unique to UAE. In other words, firms' appeals to both predominant institutional logics of UAE in legitimizing their actions stipulates a certain rubbing between these institutional logics which may result, overtime, in a dominant, or several predominant, hybrid institutional logic(s). For example, the reported integration of modesty panels to Western style offices by a local firm indicates a rubbing dynamic between the international institutional logic and the traditional institutional logic, which has led to a blend of both. Therefore, institutional change is not necessarily a result of colliding institutional logics, rather it is a result of the rubbing dynamic between institutional logics. Indeed, institutional change, as Greenwood, Suddaby and Hinings (2002: 60) note, "is achieved either by nesting and aligning new ideas within prevailing normative prescriptions...and/or by asserting their functional their functional superiority". From a theoretical formulation, the 'new ideas' (institutional change), such as integrating modesty panels to Western style offices, which draw on societal values underpinning the predominant institutional logics, are the basis of what may develop as a (or several) hybrid institutional logic whose value system is an integration of parts of the predominant value spheres.

### **Bridging Institutional Approaches**

The findings of this study have two key theoretical implications. First, elements of both the traditional neo-institutionalist and managerial discretion approaches seem to

explain the interaction between institutional framework and organizational form. On one hand, the transformation that Canadian firms underwent as a result of operating in UAE's institutional framework, and what many informants termed 'localization', is a clear illustration of organizational forms being penetrated and, to a certain extent, homogenized by the institutional framework. The adaptation of organizational processes and behaviours to the local environment is institutionalization of local values. On the other hand, as the study showed, there are variations in strategic actions and, by implication, in organizational processes across firms in UAE. The impact of managerial discretion and strategizing on a firm's form illustrates that, in turn, not only strategy matters in building legitimacy, but that through it, firms come to reshape their environment (e.g. Suchman, 1995; Abrahamson and Hambrick, 1997). Consider for example the advent of the English language as the norm in UAE's business environment, even among the local firms. Therefore, both approaches complemented each other in conceptualizing the findings of this study within the institutional based theoretical framework. Furthermore, institutional demands exert conforming pressures on firms regardless of what the firms' strategic responses are. Institutional demands differed across firms only once they were perceived (or not) and interpreted by the firm in their efforts to respond. Therefore, the second implication is manners in which firms are similar or different in what they take for granted or in their strategic responses were found to relate to variations in organizational identity. Not only are organizational cognitions relating to identity "powerful filters through which people make sense of their surroundings" (Fiol and Huff, 1992:278), but also act as "counterweight to competitive and institutional pressures to imitate widely-accepted practices" (Ashforth and Mael,

1996:33). That is, at the organizational level, identity bridged between both neo-institutional approaches in that what a firm took for granted or perceived as pressures transpired in variations in strategic responses. The moderating effect that organizational identity was found to play on firms' strategic behaviours in response to institutional demands suggests that identity is a key variable to understanding variation in organizational forms in a given environment. In the study, identity was limited to broad references to national/international identity, and while it was pertinent in mapping broad strategic differences and similarities in an international context, other (defining) identities within a national context may help in explaining differences and similarities between firms' strategic choices.

### **UAE's Framework**

Evidently, from a broad perspective, UAE's institutional framework over the past 30 years has converged towards the capitalist model and moved away from the traditional bazaars and merchant operations, replaced by the organization and the consumer. Nonetheless, the findings of this research, as discussed above, clearly reveal that this convergence is not uniform in character, rather it is a localized convergence littered with 'neo-traditional' institutions. The unique blend of UAE's capitalist framework is exemplified by a key research discovery—Wasta. An institutional artefact, Wasta resembles in character and centrality the much discussed Chinese term *Guanxi*. Ahlstrom and Bruton (2001) define the latter as connections, and describe it as a key resource for building organizational legitimacy in China. The similarities between these institutional artefacts include the trait of horse-trading (you scratch my back today, I scratch yours

tomorrow), the trait that they are acquired and traded through connections, and the trait that they are traded for preferential treatment (used to manipulate other institutional demands). Wasta differs from Guanxi in two important ways. First, while the former is based on influence, the latter is based on “instrumental-personal ties that range from strong personal loyalties to ceremonial bribery” (Xin and Pearce, 1996). Bribery, as discussed earlier, is particularly frowned upon in UAE, and firms who attempt bribing officials can face severe state sanctions and damage their reputation. Second, as a consequence, once a connection between a firm and a key official is established, acquiring/using Guanxi may rest on the ability of the firm to buy-off the officer and show a willingness to return the favour, while acquiring Wasta rests exclusively on the ability of the firm to build a friendship with the officer and thereby gain their trust that favours will be reciprocated. Both these differences perhaps explain why Wasta can only be acquired by firms perceived as legitimate (conforming to the ‘relational’ institutional demand), although legitimacy does not necessarily lead to Wasta, while Guanxi, as Ahlstrom and Bruton (2001: 234) point out, “is useful in building legitimacy”. On the other hand, Wasta and legitimacy, while both are institutional resources, differ in that legitimacy is primordial for organizational survival in its environment, and indeed is a pre-requisite for Wasta, while Wasta is strategic in getting a competitive leverage over other firms.

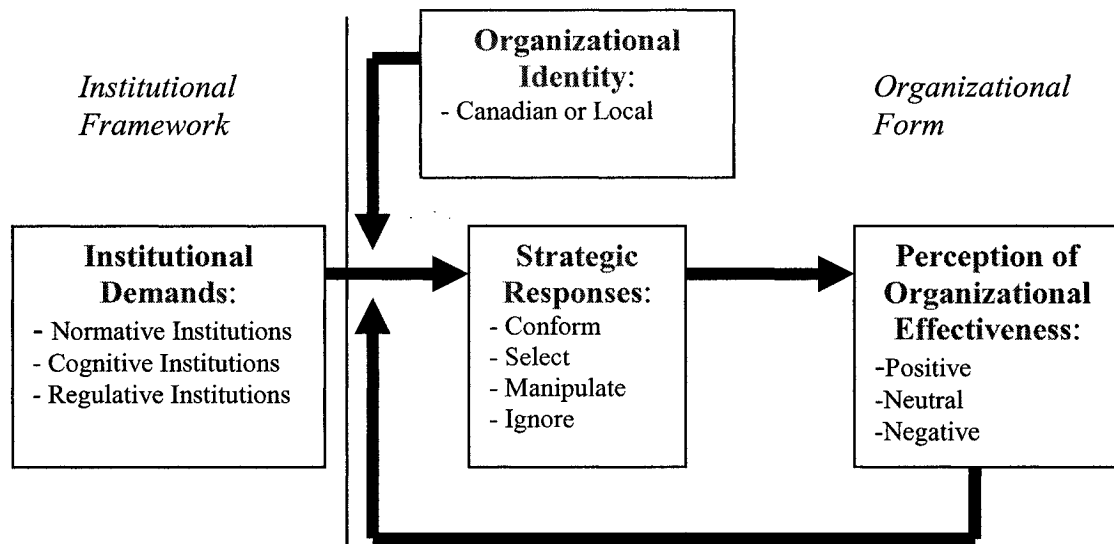
In regards to practical advice for Canadian firms contemplating setting up in the region, four points will be made. First, regulative institutional demands, such as local agency, diversity, and time (bureaucracy) are encountered mostly in the setting up phase,

and must be contemplated prior to setting foot in UAE. Conforming to the sponsor institution offers as benefit a local partner with local knowledge and contacts. Selecting the free trade zone offers in return complete control and ownership. If the firm is looking to do much business with governmental agencies, partnering up with a local may be worth the trouble of sharing ownership. Time must be spent in understanding the expectations and vision of the sponsor and if it fits the company's goals. In other words, if the firm wants to have the benefit of a sponsor while maintaining actual control and ownership, it must seek a sponsor that shares that vision rather than impose it on a given sponsor and compromise the relational aspect of the union upon which the benefits of having him are conditional. Indeed, firms with above expectation overall performance that had a sponsor manipulated that institution by curbing sponsor control and ownership, but did so while conforming to the relational institution, that is by working with the sponsor towards a mutually beneficial compromise. Meetings with the Canadian Business Council, Canadian businesses in the field and with legal consultants, and assisting to trade shows prior to setting up will help in building a good contact base of reputable potential sponsors or agents, as well as in gaining knowledge about how and which part of their operations to localize. Effective firms did conform to normative and cognitive local institutional demands, and localization necessarily requires knowledge of the local market. As one informant from an effective Canadian firm noted, "our products are Arabized, this is what we got from the trade shows and our understanding of the market". It is also important to enter the market with the frame of mind that there is more paperwork and bureaucratic steps than otherwise used to, and that a local sponsor or established contacts may help bypass bureaucratic blocks. It must also be kept in mind

that it may take several months of effort before seeing the first contracts signed. In comparison to Canadian standards, things move much slower in UAE, and therefore firms are best to expect it. As one interviewee put it, “setting up requires financial stamina and patience”. In terms of particular normative institutional demands, such as religious staff, long and haggle-full negotiations, and hospitality, most effective firms conformed. Punctuality is problematic for local staff, but was addressed with persistent insistence and/or through selecting a target workforce. In fact, many firms tackled this problem by appealing to and insisting on international norms in rationalizing the importance of punctuality to their local staff. One informant noted that, while they remained patient in implementing punctuality standards, they did “use international standards to evaluate and compensate...staff”. Thirdly, there are several cognitive demands that Canadian firms must get use to, such as a different work week (Saturday-Wednesday), work hours (7-12; 3-8), religious holidays (things are slow everywhere during the month of Ramadan), and, most importantly, the fact that business is a relational affair in UAE. Building relationships with genuine intentions, building and protecting the firm’s reputation, and working in partnerships with associates, are key to be perceived as a legitimate member of the UAE business community, and the pre-requisite to acquiring Wasta. Finally, in order to meet the above recommendations and to be able to tap into the lucrative market of UAE and the Gulf, the firm must be without a doubt flexible with its operational processes and structure, and find ways to localize in a fashion that aligns its organizational form with UAE’s institutional framework without compromising the firm’s goals. Ultimately, flexibility and localization (international identity) must be integrated in the way the firm sees and defines itself.

## Revisiting the theoretical model

The research conducted for this thesis study is a snapshot of the institutional environment of UAE, and while it does not, and cannot, describe how the current institutional framework came to be, it does take it as the premise for exploring the interactions between it, exerting institutional pressures, and organizational forms, responding to these pressures. This section reviews the developed neo-institutional theory based theoretical framework in light of the research's findings. Recall the theoretical framework:



The purpose of the theoretical framework was to guide the exploratory research in understanding the interaction between organizational forms and institutional frameworks, the purpose of the research is to confirm or adjust the proposed framework to reflect the findings in the field. The results of the research clearly point to conforming pressures exerted by the institutional framework on organizational forms. These demands exist whether or not they are perceived by the firm. In fact, as was discussed earlier, direct conformity to an institutional demand may be a result of either habitualized behaviour or



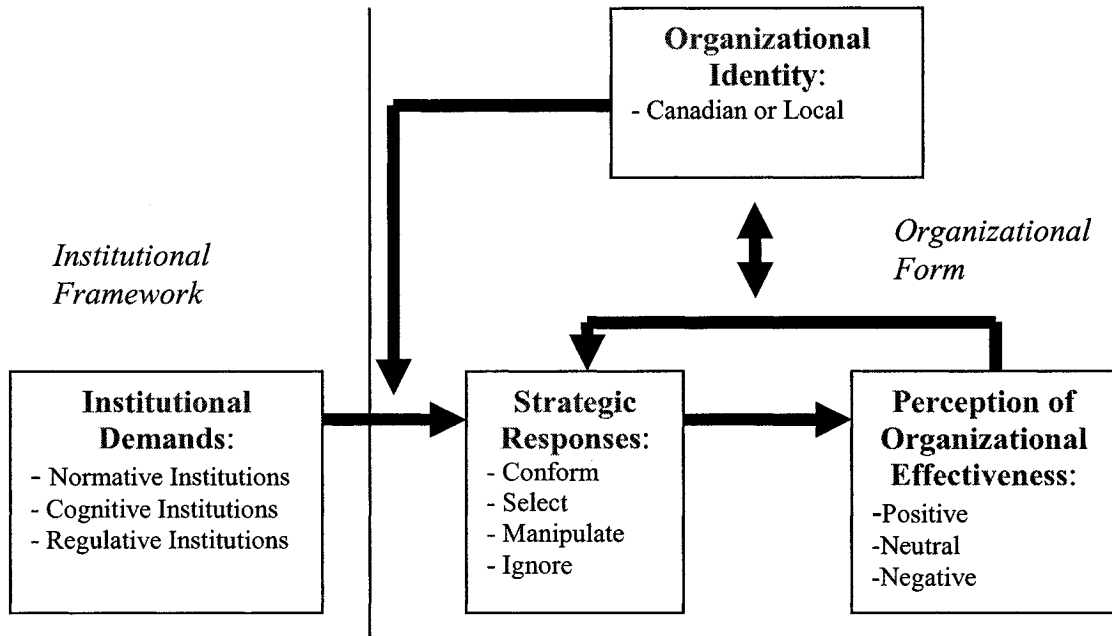
strategic action. Moreover, while some firms may ignore a demand, as either a strategic response or a lack of local understanding, the demand *is* regardless. It follows then that institutional demands, like institutions, exist outside the perceptible boundary of a given organization and are shared, upheld, and exerted by elements within the institutional framework including other firms. Furthermore, perceived institutional demands are property of the firm in so far as they are interpreted and processed by the firm through strategic responses. That is to say that a firm's strategic response is undertaken in response to its understanding or interpretation of an institutional pressure. According to the model, there may be a variety of responses to a given institutional demand, in part due to the fact that responses are informed by a firm's identity in its interpretative role in ascribing meaning to the (then) perceived institutional pressure. The results of the research discerned variation in strategic responses to institutional demands across the sample, and these strategic differences are moderated by organizational identity, supporting thus that part of the model. Moreover, as the statistical analysis showed, there was a relationship between organizational identity and overall performance. There are two possibilities of how organizational identity may be affecting overall performance. The first, albeit less conclusive explanation, is that firms of differing national origin have different criteria or standards for evaluating the impact of their actions on performance, or, simply put, have different performance measures and process evaluations. The findings of this research did not support this explanation as sighted performance measures did not correlate with organizational national origin. Moreover, while the criteria or expectation standards for qualifying performance may be linked to organizational national origin, the cross-industry nature of the sample made it impossible

to advance such conclusion. The second, more likely explanation, is that organizational national origin indirectly affects overall performance through a moderating effect identity plays on firms' strategic behaviours in response to institutional demands. The latter explanation is in line with the finding that Canadian firms operating in UAE inform, at least partially, their strategic responses to local practices or tastes by the way it defines itself, as it perceives, interprets, and responds to institutional demands.

The results also support the link between a firm's strategic response and its performance or effectiveness. Indeed, some responses had direct negative or positive effect on the firm's performance, while there was also significant differences in strategic patterns between firms with above expectation overall performance and firms with below expectation overall performance. Interestingly, firms who perceived their strategic response as having a negative impact on performance immediately sought a different strategic approach. This meant re-interpreting and giving a revised meaning to the institutional pressure, which, in turn, necessitated a certain redefinition of the firm's identity. To a certain extent, a firm's failure to properly respond to an institutional pressure evokes a requisitioning of the interpretative 'box', leading to a realignment of the strategic response with the adjusted self-definition. Hence, the framework was slightly adjusted to reflect the findings of the exploratory research as depicted in the following figure.

Figure 3: Adjusted Conceptual Framework

INTERNATIONAL CONTEXT



## **LIMITATIONS AND FUTURE RESEARCH**

A key strength of the conducted exploratory qualitative research is the depth and richness of collected data. By the same token, the quasi-case analysis and variations in emerged issues across cases, make the generalizability of findings tentative. First, endemic of case analysis is a small sample size. While efforts to select and verify the extent to which the sample is representational of the population on key dimensions were made, the language of the interview may have been a barrier for a group of firms among the targeted firms. It is quite possible that some of the solicited high ranking officers of local firms did not partake in the research because of a perceived language barrier. In other words, the sample is potentially skewed which limits the generalizability of the findings across UAE's organizational population. Moreover, the unique character of the Arab Gulf in general, and UAE in particular, makes the generalizability of inferences about interactions between emerging societies and international firms tentative at best. Second, the exploratory nature of the research means that no particular focus on any one issue was imposed or necessarily raised by all firms. In other words, the extent and impact of the issues raised and identified may not be proportionally perceived by the population of firms in UAE. The findings do however provide the opportunity to conduct a more focused (i.e. quantitative) survey-type future study. Circulating the surveys in English and Arabic and targeting a much wider audience will make for much more generalizable findings and the validation of the revised conceptual model developed in this study. Targeting firms of various identities and national origins would certainly shed more light on and quantify the impact of organizational identity (ies) on strategic actions and vice versa.

## CONCLUSION

Neo-institutional theory is a particularly effective tool in exploring the interaction between developing societies and the foreign organizations they harbour. Globalization has extended the dominance of capitalistic institutions even in the remotest markets (Goldblatt, Held, McGrew, and Perraton, 1999). The convergence and divergence debate is about whether globalization is leading to a uniform integrated system or to a localized integration (such as trading blocks). From a neo-institutionalist perspective, this debate is a question of the extent to which international/capitalist institutional logics come to dominate and replace local/traditional institutional logics within institutional frameworks. In the case of UAE, it was found that certain traditional practices and norms persist and are perpetuated by firms and other agency. This localized modernization, while is dynamic and transforming, at this point, leans towards the divergence side of the debate. Nonetheless, UAE is willingly marching to the beat of globalization and has left behind its bazaars and caravans in favour of the organization and the consumer.

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## APPENDIX

Table 1: Arab Country Typology by Economic Policies

	Arab Country Typology		
	Algeria (Saddam's) Iraq Libya Syria	Kuwait UAE Saudi Arabia Qatar Oman	Jordan Lebanon Tunisia Morocco Egypt
<b>Policy Alternatives</b>	Regulative- Restrictive	Promotional	Open-Door

Slightly configured to reflect recent events. Source: Ajami, 1986: 110.

Table 2: Statistical Variables

Org Stat Variables	Organization's ID					
	1	2	3	4	5	6
Head Office Location	UAE	Canada	Canada	UAE	UAE	Canada
Ownership	Local Citizen	LLC	Professional License	Local Citizen	LLC	Free Trade Zone
Industry	Hostelry	Construction	Legal services	Transportation	Logistics	Consulting
Organizational Age	30 years	3 Years	13 years	20 years	1.5 years	2 years
Organizational Size	2000 employees	1 employee	17 employees	14 employees	5 employees	3 employees
Overall Performance	Meets expectations	Under expectations	Under expectations	Meets expectations	Above expectations	Above expectations
Performance Measures	External Firm: Arthur Anderson	# of Contracts Won	# of clients, Profits, Customer Satisfaction	Revenues	Sales & Customer Satisfaction	Revenues & Open New markets
	1% of total staff	0%	5%	7%	0%	0%
Local Staff						
Muslim Staff	50% of total staff	0%	50%	71%	DNK	0%
Language of Operation	English	English	English	English & Arabic	English & Arabic	English

Table 2 Continued

Org Stat Variables	Organization's ID				
	7	8	9	10	11
Head Office Location	UAE	Canadian	Canada	Canada	UAE
Ownership	Dubai GVT	Joint Venture	Free Trade Zone	Bank License	LLC
Industry	Air Carrier	Document destruction	Food and Beverages	Financial services	Advertisement
Organizational Age	22 years	3 years	18 years	30 years	2 years
Organizational Size	15000 employees	8 employees	8 employees	6 employees	10 employees
Overall Performance	Above expectations	Under expectations	Above expectations	Meets expectations	Meets expectations
Performance Measures	# of enrolments,				
	# of Complaints,		Sales and		Profits, Customer
	Revenues	DNS	Sales growth	Revenues	Satisfaction
	Local Staff	5.5%	13%	0%	0%
Muslim Staff	25%	DNK	40%	0%	70%
Language of Operation	English	English	English	English	English & Arabic

Table 2 Continued

Ind Stat Variables	Organization's ID					
	1	2	3	4	5	6
Position in firm	GM	VP Middle East	Owner & GM	GM	Owner & GM	Owner & GM
Individual Experience in Gulf	4 Years	5.5	13 years	27 years	5 years	2 years
Individual Identity	Canadian & Intn'l	Canadian & Intn'l	Canadian & Iranian	Arab	Arab & Canadian	Canadian & Intn'l

Ind Stat Variables	Organization's ID					
	7	8	9	10	11	
Position in firm	VP Loyalty Program	GM	VP Middle East	Director Middle East	Managing Director	
Individual Experience in Gulf	22 years	4.5 years	24 years	11 years	7 years	
Individual Identity	Canadian & Intn'l	Australian	Arab & International	Canadian	Arab & Canadian	

LLC : Limited liability company, 51% shares owned by sponsor Free Trade Zone allows full ownership by foreigners

DNK: Does Not Know

DNS: Did not say

Table 3: Average firms' size and age by sub-sample

	Average/Median Firm Size	Average/Median Firm Age
Canadian Firms	7.2 <sup>5</sup> /8	11.5 <sup>6</sup> /8
Local Firms	3406 <sup>7</sup> /14	15.1 <sup>8</sup> /20

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<sup>5</sup> From Table 7:  $(1+17+3+8+8+6)/6 = 7.2$

<sup>6</sup> From Table 7:  $(3+13+2+3+18+30)/6 = 11.5$

<sup>7</sup> From Table 7:  $(2000+14+5+15000+10)/5 = 3406$

<sup>8</sup> From Table 7:  $(30+20+1.5+22+2)/5 = 15.1$



Table 4: Interview Questionnaire

**Set 1: Personal Information**

1. What is your current position with 'Firm Name'?
  - Have you been involved at the decision-making level in setting up in Dubai?
  - Have you been or are you involved in managing staff?
  - Have you been or are you involved in conducting business deals in UAE?
2. How long have you been with 'Firm Name'?
3. Can you approximate the total length of all your work experience in UAE?
4. How would you describe your cultural identity?

**Set 2: General company information**

6. What type of ownership does your company have?
7. How long has the company been operating in UAE?
8. How many employees does 'Firm Name' have in UAE?
9. What is the proportion of locals to total staff?
10. What is the proportion of Muslims to total staff?
11. To which industry, trade, or business associations is your firm affiliated?
12. How would you describe 'Firm Name's organizational identity?
14. Can you name some key elements that give your company that identity?
15. How would you define the current overall performance of 'company'? How does it compare to expectations?
16. What are some measures you use to evaluate your company's performance?

**Set 3: Setting-up:**

17. What issues did you consider in terms of selecting a location to operate?
18. What issues particular to the region did you consider in designing the physical space of your company?
19. What issues did you consider in selecting a sponsor?

- 20. What issues did you consider in selecting an agent?
- 21. What were some other key considerations in setting-up in Dubai?

**Set 4: Managing staff:**

- 22. What are key considerations in managing staff in Dubai?
- 23. What is your firm's main operational language?
- 24. Are employees (expatriates) given sensitivity or cultural training?
- 25. How are new procedures transmitted to employees?
- 26. How do you sensitize your employees and associates about your corporate culture?

**Set 5: Conducting business deals:**

- 27. What are key norms, conventions or taboos that must be considered in presenting, negotiating, and signing business deals in Dubai?
- 28. Can you recall an occasion where your firm accidentally overlooked some of these conventions in the process of conducting business?

**Set 7: Closing Question:**

- 30. What does it take for a firm to be effective and performing in UAE?

Table 5: Working definitions of first level Concepts

<b>Concepts Level1</b>	<b>Working Definitions</b>
Agent	Selecting or managing the firm's agent
Bribery	Bribing officials of government or other firms
Bureaucracy	Attitude or ways of dealing with ministries for paperwork
Commission	Payouts or other inducements, often not in the books, by firms to individuals for side service
Commitment	Patience, stamina and spending time in the field to show commitment
Connection	Establishing contacts and connections that can be used later
Contract	Usage of written and spoken contracts
Control	Management and decision making control over the firm
Cult knowl	Understanding and ways to gain knowledge of local practices, customs, and culture
Diversity	The diversity of staff, how it's managed, or how it affects business
Expectations	Work and compensation expectations of local staff
Expertise	Emphasis on specialization of agents in the traded goods
Favouritism	Getting preferential treatment for having a certain status or nationality
Hospitality	Serving tea or coffee as expected
Image	Conscious efforts to protect or brand the firm's image in a certain way
Ind experience	Number of individual working experience years in the Arab Gulf
Ind identity	The individual's cultural or national identity
Information	Keeping current and on top of things through membership with business associations
Intn'l standard	Applying international or Western norms on some facet of the business
Islam	Regulations and holidays affecting firms or their products that stem from Islamic practices
Lang	The languages used by management or the effect of language on firm operations
Law knowl	Learning and knowing the local laws and regulations
Local staff	Percentage of local staff to total staff in the firm

Table 5 Continued

Localization	The need or efforts to adapt the firm's products or processes to the local market
Location	Selecting a location for the business based on non-sponsor issues
Management style	Nature of interaction between management and employees
Market focus	Segment of the market targeted by the firm or the means to develop it
Market knowl	Emphasis on understanding the local market
Muslim staff	Percentage of Muslim staff to total staff
Negotiation	Specific mention of the difficulty or time dimension of negotiations
Networking	Emphasis on networking and meeting people or the use of networks
Org age	Number of years the firm has been operating in UAE
Org identity	The national-cultural identity of the firm or the firm's guiding principles and values
Org size	The number of employees a firm has in its Dubai operation
Overall perf	The overall performance of the firm as either under, meets or above the firm's expectations
Ownership	Ownership type of the UAE operation, such as LLC, joint venture, wholly owned or license
Partnership	Working with business associates in partnership
Perf measures	Measures used to evaluate the firm's overall performance
Prayer	Attitude and management of prayer behaviours
Prayer room	Prayer room in the facility for Muslim staff
Publicity	Methods for raising awareness about the firm
Punctuality	Punctuality of staff in UAE

Table 5 Continued

Recruitment	Challenges in finding and hiring needed staff
Relationship	Emphasis on building relationships and getting to know your counterparts
Reputation	The importance of having a good reputation as a firm or as a sponsor
Sponsor	Nature of the sponsor involvement, emphasis on selecting the right sponsor or setting in Free Trade Zone
Time	The time dimension and speed involved in carrying out general operations in UAE
Training	Implementing regular or cultural training
Trust	Importance and ways of establishing Trust between the firm and agency in UAE
Wasta	The emphasis on 'who you know', or using who you know to open doors, or direct mention of Wasta
Work ethic	Work ethic of local staff
Work hours	Working hours in UAE
Work week	Thursday and Friday are off days

Table 6: Example of concept summary document

<div data-bbox="717 190 815 218" data-label="Text"> <p>Firm 06</p> </div> <div data-bbox="209 222 466 251" data-label="Section-Header"> <p><u>Introductory questions:</u></p> </div> <div data-bbox="209 251 1088 467" data-label="List-Group"> <ul style="list-style-type: none"> <li>- Since October 2003 in UAE (<b>IND EXPERIENCE, ORG AGE</b>)</li> <li>- Canadian who gets along everywhere, "I am more Western" (<b>IND IDENTITY</b>)</li> <li>- In the UAE, it's an incorporated company, I'm the only owner (<b>OWNERSHIP</b>)</li> <li>- In UAE, we are 3 (<b>ORG SIZE</b>)</li> <li>- Exceed expectation (<b>OVERALL PERF</b>) <ul style="list-style-type: none"> <li>- Revenues and opening new markets (<b>PERF MEASURES</b>)</li> </ul> </li> <li>- English (<b>LANG</b>)</li> </ul> </div> <div data-bbox="209 500 574 528" data-label="Section-Header"> <p><u>View on Emiritization/local staff:</u></p> </div> <div data-bbox="209 528 1313 770" data-label="List-Group"> <ul style="list-style-type: none"> <li>- With the market we are going for, it doesn't make sense to hire locals (<b>MARKET FOCUS, LOCAL STAFF</b>)</li> <li>- If we grow, I would like to have a local, opens up doors (<b>WASTA</b>)</li> <li>- They are not always competent in their work (<b>WORK ETHIC</b>)</li> <li>- They also bring language and local knowledge (<b>LANG, CULT KNOWL</b>)</li> <li>- The preferential treatment they are getting may be hurting them in the long term (<b>FAVORITISM</b>)</li> </ul> <p><i>Pattern: if market focus government then lang and cult important, one strategy is hire locals, a conf strat</i></p> </div> <div data-bbox="209 805 454 836" data-label="Section-Header"> <p><u>Business associations:</u></p> </div> <div data-bbox="209 836 1325 897" data-label="List-Group"> <ul style="list-style-type: none"> <li>- CBC is a benefit because of the networking opportunities and branding it provides (<b>NETWORKING, IMAGE</b>)</li> </ul> </div> <div data-bbox="209 928 470 958" data-label="Section-Header"> <p><u>Organizational Identity:</u></p> </div> <div data-bbox="209 958 1282 1144" data-label="List-Group"> <ul style="list-style-type: none"> <li>- Being branded as Canadian is a benefit, good reputation (<b>REPUTATION</b>)</li> <li>- The Canadian government is helpful and we feel we are part of the same team (<b>ORG IDENTITY</b>)</li> <li>- Our identity as Canadian is lessening as we become more international (<b>ORG IDENTITY</b>) <ul style="list-style-type: none"> <li>- "Being international really means being out in the global market"</li> </ul> </li> <li>- Our values as a Canadian company is fairness and professionalism (<b>ORG IDENTITY</b>) <ul style="list-style-type: none"> <li>- "not giving in into shortcuts...go according to the rules"... comes out often for CND comp</li> </ul> </li> </ul> </div> <div data-bbox="209 1174 334 1205" data-label="Section-Header"> <p><u>Setting up:</u></p> </div> <div data-bbox="209 1205 1269 1419" data-label="List-Group"> <ul style="list-style-type: none"> <li>- I don't need a sponsor, I'm in the Free Trade Zone (<b>SPONSOR</b>)</li> <li>- Things can happen much slower and less efficiently (<b>BUREAUCRACY</b>) <ul style="list-style-type: none"> <li>- "In many ways Dubai is still a sleepy fishing and pearl trading village"</li> <li>- I deal with it by being aggressive and pushy but in a nice way...manipulate</li> </ul> </li> <li>- In Ramadan things move very slowly, so you have to adjust to the schedule (<b>religion</b>)</li> <li>- People with influence, connection and more wealth get served quicker (<b>WASTA</b>)</li> <li>- We set up in the Free Trade Zone mainly to have 100% ownership (<b>OWNERSHIP, SPONSOR</b>)</li> </ul> </div> <div data-bbox="209 1450 389 1480" data-label="Section-Header"> <p><u>Managing Staff:</u></p> </div> <div data-bbox="209 1480 1240 1541" data-label="List-Group"> <ul style="list-style-type: none"> <li>- We are constantly discussing cultural sensitivities and tactics (<b>TRAINING, CULT KNOWL</b>) <ul style="list-style-type: none"> <li>- "I think it has had a positive impact on our effectiveness"</li> </ul> </li> </ul> </div> <div data-bbox="209 1572 443 1600" data-label="Section-Header"> <p><u>Conducting Business</u></p> </div> <div data-bbox="209 1600 1192 1753" data-label="List-Group"> <ul style="list-style-type: none"> <li>- Things tend to be slow (<b>TIME</b>)</li> <li>- There is a problem with trust in Dubai, it takes time before people start to relax (<b>TRUST, COMMITMENT, RELATIONSHIP</b>) <ul style="list-style-type: none"> <li>- "It took time, I slowly build relationships, but it just took time"</li> </ul> </li> <li>- It's very important to be patient, have endurance and professionalism (<b>COMMITMENT</b>)</li> </ul> </div>
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Table 7: First-level concepts to Second-level concepts conversion

<b>Concepts L1</b>	<b>Concepts L2</b>
Commitment	Commitment
Contract	Contract
Control	Control
Diversity	Diversity
Hospitality	Hospitality
Individual Experience	Individual Experience
Individual Identity	Individual Identity
Bribery, Commission	<b>Inducement</b>
International Standards	International Standards
Prayer, Islam, Prayer room	Islamic Practice
Expertise, Information, Law Knowl, Market Knowl, Cult Knowl	<b>Knowledge of local environment</b>
Language	Language
Agent, Sponsor	<b>Local Agency</b>
Local Staff	Local Staff
Localization	Localization
Location	Location
Market Focus	Market Focus
Publicity, Image	<b>Marketing</b>
Muslim Staff	Muslim Staff

Table 7 Continued

Negotiation	Negotiation
Networking	Networking
Organizational Age	Organizational Age
Mangmnt style, Org Identity	<b>Organizational Identity</b>
Organizational Size	Organizational Size
Overall Performance	Overall Performance
Ownership	Ownership
Performance Measures	Performance Measures
Expectations, Favoritism	<b>Preferential Treatment</b>
Recruitment	Recruitment
Partnership, Reputation, Relationship	<b>Relational</b>
Bureaucracy, Time	<b>Time</b>
Training	Training
Trust	Trust
Connection, Wasta	<b>Wasta</b>
Work ethic, Punctuality	<b>Local Working Charact.</b>
Work hours, Work week	<b>Work Schedule</b>



Table 8: Working definitions of second level Concepts

<b>Concepts L2</b>	<b>Working Definition</b>
Commitment	Patience, stamina and spending time in the field to show commitment
Contract	Perceived relevance of written or spoken contracts
Control	Actions or ways of controlling or curbing sponsor or agent power over the firm including setting up in FTZ
Diversity	Perceived relevance of staff diversity, the need to manage it, or how it may affect Business
Hospitality	Perceived need to serving tea or coffee as expected
Individual Experience	Number of individual working experience years in the Arab Gulf
Individual Identity	The individual's cultural or national identity
Inducement	Bribes, payouts or other inducements by firms to individuals for side service rendered or for favours
International Standards	Applying international or Western norms on some facet of the business
Islamic Practice	Perceived relevance of Islamic holidays, regulations or practices that impact firm operations or processes
Knowledge of local environment	Emphasis on acquiring, knowledge of local market, laws, culture, or expertise in the traded goods
Language	The languages used by management or the effect of language on firm operations
Local Agency	Perceived relevance of the nature of, or emphasis on selecting the right agent or Sponsor
Local Staff	Percentage of local staff to total staff in the firm
Localization	Actions or efforts to adapt the firm's products or processes to the local market

Table 8 Continued

Location	Selecting a location for the business based on non-sponsor issues
Market Focus	Segment of the market targeted by the firm or the actions/means to develop it
Marketing	Actions to raise awareness about the firm or to portray a certain image of the firm
Muslim Staff	Percentage of Muslim staff to total staff
Negotiation	Specific mention of a perceived difficulty in negotiations or its time dimension
Networking	Emphasis on networking and efforts to meeting people
Organizational Age	Number of years the firm has been operating in UAE
Organizational Identity	The national-cultural identity of the firm, the firm's guiding principles and values, or its management style
Organizational Size	The number of employees a firm has in its Dubai operation
Overall Performance	The overall performance of the firm as either under, meets or above the firm's Expectations
Ownership	Ownership type of the UAE operation, such as LLC, joint venture, wholly owned or license
Performance Measures	Measures used to evaluate the firm's overall performance
Preferential Treatment	Perceived societal emphasis on receiving or expecting preferential treatment because of nationality or status
Recruitment	Perceived challenges in finding and hiring needed staff
Relational	Perceived relevance of the need to build relations, work in partnership, and build firm or sponsor reputation
Time	Emphasis on the length of time for carrying out business interactions, or on red tape in dealing with GVT

Table 8 Continued

Training	Implementing regular or cultural training
Trust	Importance and ways of establishing Trust between the firm and agency in UAE
Wasta	The emphasis on contacts or connections, using who you know to open doors, or direct mention of Wasta
Local Working	
Charact.	Perceived working characteristics of local staff, including punctuality
Work Schedule	Standard working hours and days in Dubai

Table 9: Firms' Organizational Identities

Org Cod	Org Identity
1	Local
2	Canadian
3	Canadian
4	Local
5	Local & International
6	Canadian & International
7	Local & International
8	Canadian
9	Canadian & International
10	Canadian
11	Local

**Table 10: Concept Types**

<b>Concepts L2</b>	<b>Type</b>	<b>Type Level</b>
Commitment	Generic	n/a
Contract	Institutional	cognitive
Preferential Treatment	Institutional	cognitive
Work Schedule	Institutional	cognitive
Relational	Institutional	cognitive
Negotiation	Institutional	normative
Hospitality	Institutional	normative
Islamic Practice	Institutional	normative
Local Working Charact.	Institutional	normative
Diversity	Institutional	Regulative
International Standards	Institutional	Intern'l Standards
Time	Institutional	Regulative
Local Agency	Institutional	Regulative
Recruitment	Non-institutional	n/a
Location	Non-institutional	n/a
Organizational Identity	Org Identity	Local/Canadian
Trust	Generic	n/a
Wasta	Resource	Capital
Overall Performance	Statistical	Above/Meets/Under Expectations
Language	Statistical	English/Arabic
Individual Experience	Statistical	n/a

Individual Identity	Statistical	n/a
Local Staff	Statistical	n/a
Muslim Staff	Statistical	n/a
Organizational Age	Statistical	n/a
Organizational Size	Statistical	n/a
Ownership	Statistical	n/a
Performance Measures	Statistical	n/a
Knowledge of local environment	Strategy	Conform
Marketing	Strategy	Conform
Networking	Strategy	Conform
Localization	Strategy	conform/manipulate
Inducement	Strategy	manipulate
Training	Strategy	manipulate
Control	Strategy	manipulate/select
Market Focus	Strategy	select

Table 10a: Definitional parameters for institutional demands

Types of institutional demands	Guiding definitions <sup>9</sup>
Regulative	Laws, legal processes, or unwritten rules that govern economic activities and exert conforming pressures on firms
Normative	Prescriptions about what constitutes appropriate and or expected actions
Cognitive	Taken-for-granted “frameworks on which normative and regulative systems are construed” (Ruef and Scott, 1998: 879)

Table 10b: Definitional parameters for alternative strategic responses

Alternative strategic responses	Guiding definitions <sup>10</sup>
Conform	Complying with the local rules, norms, and customs
Select	Selecting an environment or constituency that fits/accepts the organization as is
Manipulate	“The purposeful and opportunistic attempt to co-opt, influence, or control institutional pressures and evaluations” (Oliver, 1991: 157)
Ignore	Ignoring or dismissing explicit or implicit institutional rules

<sup>9</sup> Based on Ruef and Scott’s (1998) typology of institutional pressures

<sup>10</sup> Based on Oliver’s (1991) typology of strategic responses to institutional pressures

**Table 11: Institution-Strategy Matrix**

Key	Org code	Org identity	Overall Perf	Regulative	Normative	Cognitive	Intn'l Standards	Effect
6	9	Canadian & Intn'l	Above Expectations			Conform		
7	2	Canadian	Under Expectations	Manipulate				
10	3	Canadian	Under Expectations	Manipulate				
11	3	Canadian	Under Expectations	Manipulate				
13	6	Canadian & Intn'l	Above Expectations	Select				
14	8	Canadian	Under Expectations	Manipulate				
15	9	Canadian & Intn'l	Above Expectations	Manipulate				+
18	9	Canadian & Intn'l	Above Expectations	Select				
19	1	Local	Meets Expectations	Conform				
20	1	Local	Meets Expectations	Conform				
21	4	Local	Meets Expectations	Conform				
23	8	Canadian	Under Expectations	Manipulate				+
24	9	Canadian & Intn'l	Above Expectations	Manipulate				



27	2	Canadian	Under Expectations		Conform			
28	2	Canadian	Under Expectations		Manipulate			-
31	3	Canadian	Under Expectations	Manipulate				+
33	5	Local & Intn'l	Above Expectations		Manipulate			+
34	1	Local	Meets Expectations				Conform	
35	4	Local	Meets Expectations				Conform	
36	7	Local & Intn'l	Above Expectations				Conform	
37	7	Local & Intn'l	Above Expectations				Conform	
38	7	Local & Intn'l	Above Expectations		Select		Conform	+
39	7	Local & Intn'l	Above Expectations				Manipulate	
40	7	Local & Intn'l	Above Expectations		Conform		Manipulate	
41	8	Canadian	Under Expectation		Select		Conform	
42	1	Local	Meets Expectations		Conform			
43	1	Local	Meets Expectations.		Manipulate			
44	2	Canadian	Under Expectations		Manipulate			

45	6	Canadian & Intn'l	Above Expectations		Conform			
46	7	Local & Intn'l	Above Expectations		Conform			
47	7	Local & Intn'l	Above Expectations		Conform			
48	9	Canadian & Intn'l	Above Expectations		Conform			
49	9	Canadian & Intn'l	Above Expectations		Conform			
50	9	Canadian & Intn'l	Above Expectations		Conform			
55	3	Canadian	Under Expectations		Conform			+
74	2	Canadian	Under Expectations		Conform			+
87	2	Canadian	Under Expectations	Ignore				-
93	5	Local & Intn'l	Above Expectations	Conform				
98	7	Local & Intn'l	Above Expectations				Manipulate	
99	8	Canadian	Under Expectations				Manipulate	
104	9	Canadian & Intn'l	Above Expectations				Manipulate	
105	10	Canadian	Meets Expectations				Manipulate	
109	8	Canadian	Under Expectations		Select		Conform	

112	3	Canadian	Under Expectations			Conform		
113	3	Canadian	Under Expectations			Conform		
114	6	Canadian & Intn'l	Above Expectations			Conform		
115	7	Local & Intn'l	Above Expectations			Conform		
120	2	Canadian	Under Expectations		Conform			
125	7	Local & Intn'l	Above Expectations		Conform			
126	8	Canadian	Under Expectations		Conform			
127	8	Canadian	Under Expectations			Conform		
129	1	Local	Meets Expectations			Conform		
131	3	Canadian	Under Expectations			Conform		
132	5	Local & Intn'l	Above Expectations			Conform		
136	8	Canadian	Under Expectations			Conform		
138	11	Local	Meets Expectations			Conform		
140	3	Canadian	Under Expectations			Conform		
143	7	Local & Intn'l	Above Expectations			Conform		

144	7	Local & Intn'l	Above Expectations			Conform		
147	1	Local	Meets Expectations			Conform		
148	1	Local	Meets Expectations			Conform		
149	2	Canadian	Under Expectations			Ignore		-
155	5	Local & Intn'l	Above Expectations			Conform		
157	6	Canadian & Intn'l	Above Expectations			Conform		
158	7	Local & Intn'l	Above Expectations			Conform		
161	7	Local & Intn'l	Above Expectations			Conform		
163	8	Canadian	Under Expectations			Conform		
165	9	Canadian & Intn'l	Above Expectations	Manipulate		Conform		+
167	10	Canadian	Meets Expectations			Conform		
168	11	Local	Meets Expectations			Conform		
171	3	Canadian	Under Expectations	Manipulate				+
177	9	Canadian & Intn'l	Above Expectations	Conform				
181	3	Canadian	Under Expectations		Manipulate			+

208	7	Local & Intn'l	Above Expectations		Manipulate			
210	3	Canadian	Under Expectations			Conform		
211	3	Canadian	Under Expectations			Conform		
212	8	Canadian	Under Expectations			Conform		
213	8	Canadian	Under Expectations			Manipulate		-

Table 12: Strategy Patterns by Overall Firm Performance

	Regulative- Conform	Regulative- Manipulate	Regulative- Select	Regulative- Ignore	Normative- Conform	Normative- Manipulate	Normative- Select	Normative- Ignore
Firms with Performance above Expectations	2 occurrences	3 occurrences	2 occurrences	0 occurrence	8 occurrences	2 occurrences	1 occurrence	0 occurrence
Firms with Performance below Expectations	0 occurrence	7 occurrences	0 occurrence	1 occurrence	5 occurrences	3 occurrences	2 occurrences	0 occurrence
Firms with Performance that meet Expectations	3 occurrences	0 occurrence	0 occurrence	0 occurrence	1 occurrence	1 occurrence	0 occurrence	0 occurrence
Total	5	10	2	1	14	6	3	0

	Cognitive- Conform	Cognitive- Manipulate	Cognitive- Select	Cognitive- Ignore	Intn'l Stndrds- Conform	Intn'l Stndrds- Manipulate
Firms with Performance above Expectations	11 occurrences	0 occurrence	0 occurrence	0 occurrence	3 occurrences	4 occurrences
Firms with Performance below Expectations	10 occurrences	1 occurrence	0 occurrence	1 occurrence	2 occurrences	1 occurrence
Firms with Performance that meet Expectations	6 occurrences	0 occurrence	0 occurrence	0 occurrence	2 occurrences	1 occurrence
Total	26	1		1	7	6

Table 12a: Perceived Direct Impact of Response on Firm Effectiveness

	Regulative-Conform	Regulative-Manipulate	Regulative-Select	Regulative-Ignore	Normative-Conform	Normative-Manipulate	Normative-Select	Normative-Ignore
Positive Effect	0	3	0	0	2	2	1 <sup>11</sup>	0
Negative Effect	0	0	0	1	0	1	0	0

	Cognitive-Conform	Cognitive-Manipulate	Cognitive-Select	Cognitive-Ignore	Intn'l Stndrds-Conform	Intn'l Stndrds-Manipulate
Positive Effect	1	0	0	0	1 <sup>11</sup>	0
Negative Effect	0	1	0	1	0	0

<sup>11</sup> Positive effect perceived as a result of simultaneously selecting out of normative institutional demand and conforming to international standard

Table 13: Response differences within Canadian sub-group

	Regulative Demands	Normative Demands	Cognitive Demands	Response effect on firm
Canadian	88% of responses were 'Manipulate or Select'	70% of responses were 'Manipulate or Select'	50% of responses were 'Manipulate or Select'	75% of total negative effect (Normative/cognitive demands)
Canadian-International	83% of responses were 'Manipulate or Select'	0% of responses were 'Manipulate or Select'	0% of responses were 'Manipulate or Select'	0% of total negative effect (Normative/cognitive demands)



Table 14: Response differences within Local sub-group

	Regulative Demands	Normative Demands	Cognitive Demands	International Standards
Local	0% of responses were 'Manipulate or Select'	50% of responses were 'Manipulate or Select'	0% of responses were 'Manipulate or Select'	0% of responses were 'Manipulate or Select'
Local-International	0% of responses were 'Manipulate or Select'	43% of responses were 'Manipulate or Select'	0% of responses were 'Manipulate or Select'	50% of responses were 'Manipulate or Select'

Table 15: Wasta Coded Text Entries

Wasta	Locals have Wasta, contacts and influence, and that opens doors
Wasta	Benefit of establishing connections, essential to get anywhere
Wasta	Connections will bring you wasta, (defines it as) political clout and influence
Wasta	Select a sponsor that has wasta
Wasta	Here it's all about contacts, you need to establish them as soon as possible
Wasta	When we grow, ill be interested in hiring locals, it opens doors
Wasta	People with influence, connection and wealth get served quicker
Wasta	It's very much a place of who you know
Wasta	Here, it's based on who you know, and not what you know, and locals are key for that
Wasta	They (our partners) are a powerful lobby group and well connected
Wasta	Who you know is very important
Wasta	A friend of ours sponsored us and wished us the best