

**Gordon Institute
of Business Science**
University of Pretoria

MNEs and foreign partner strategic alliance in Middle East emerging Arab
markets

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ABSTRACT

Purpose: This article seeks to advance, build upon and extend our understanding of the evolution of business-to-business relationships as part of internationalisation strategy, exploring and drawing on the theoretical lens of psychological contract theory within the principal agent context. This article aims to extend our understanding of the role and explore implications that psychological contracts play in developing trust and long-term personal manufacturer-distributor/ agent relationships between Western and Middle East and North Africa (MENA) Arab region corporations. The research presents an integration of psychological contract theory borrowed from deeply rooted constructs of Human Resource Management (HRM) and added to the field of Strategy and International Business to the Principal Agent Theory model. The paper aims to present a model which helps to explain the overall relationship between Western and MENA corporations that can be applied to build trust, commitment, and co-operation between firms as a strategic approach to achieving successful internationalisation strategies and competitive advantage. A proposed agenda for future research lays the foundation for strategy and international business scholars to advance the principal agency theory within the psychological contract theory.

Findings: The results of the study present trust as the fundamental major key factor upon which business relations and dealings are built in MENA Arabic speaking countries. Positive psychological contracts are characterised through a multiplier model that presents the key elements that build trust.

Research Implications: The findings of the study provide insights and a deeper understanding of the psychological dimensions and aspects that influence business partnerships. The aim is to advance and broaden the widely acknowledged and iconic principal agency theory by integrating language, culture and contextual nuance considerations that exist between Western multinational enterprises (MNEs) and their local partners in the Middle East North Africa (MENA) region to internationalisation strategies.

Practical Implications: The framework and trust multiplier model developed in this study can be utilised by management as part of their internationalisation strategy to build strong relationships between Western MNEs entering the MENA region.

Key words: Principal agent theory; psychological contracts; business-to-business relationships; Middle East North Africa; Strategic Alliance

Type of Paper: International Business research paper

Middle East and North Africa (MENA): Algeria, Bahrain, Djibouti, Egypt, Islamic Republic of Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, the United Arab Emirates, West Bank and Gaza, Yemen.

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

SRChonse

Researcher

1 November 2023

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MNEs and foreign partner strategic alliance in Middle East emerging Arab markets

Chapter 1

Introduction to Research and Contextual Background

1.1 Introduction

This chapter introduces and outlines the significance of interpersonal relationships between multinational enterprises (MNEs) and foreign partners in emerging Middle East North Africa (MENA) Arab markets. The research is focused on the method of building strong business relationships by applying psychological contract theory to the widely utilised and iconic agency theory model. The introduction details the research practical problem, theoretical and business relevance, and the value that the theoretical model brings to academia and business.

1.2 Research Problem and Contextual Background

Business-to-business relations have been the primary focus of international business research and at the core of building market relations and strategic alliances (Buckley, 2018). Business relations are particularly central for multinational enterprises that work within the framework of the global business which includes a collection of independent firms (Buckley, 2018). The topic of relationships between resellers and multinational enterprises (MNEs) is one of the ten most important topics of the last decade (Martínez-López, et al., 2020), and is fundamental to the success of internationalisation strategies, growth in market share, global reach, competitive advantage, profitability (Loro & Mangiaracina, 2022) and organisational expansion (Bergestuen et al., 2022). MNEs find it difficult to operate and formalise strategic alliances in emerging markets due to: (1) limited socio-cultural understanding and distinctive business practices within the cultural context (Berger et al., 2021), (2) differences in operating systems, risk preferences, firm objectives and behaviours of different parties in the exchange (3) and the substantial geographical and psychological distance separating partners in the international business realm (Barnes et al., 2010).

Globalisation, proliferated by the Fourth Industrial Revolution has modified the corporate ecosystem in which multinational organisations exist and has amplified the importance

of strategic alliances and strong relationships as part of their internationalisation strategies which has brought to the fore the complexities of interdependencies of various actors in the ecosystem. Partnering with resellers has become increasingly important in today's rise and rapid proliferation of both domestic and international globalised competition and increasingly fragmented markets (Buckley, 2018), in which multinational enterprises choose to delegate many activities to resellers who possess market knowledge, expertise and distribution networks to effectively and efficiently bring the product to a designated market, a task that many multinationals find challenging in accomplishing on their own (McQuiston, 2001).

In a global context, poor business relationships play a critical role and contribute significantly business capital loss (Thomsen, 2020). Robust business relationships form part of strategic alliances that MNEs can leverage to develop sustainable competitive advantage (Thomsen, 2020; Sharma, Saha & Balaji, 2022). Strategic partnerships contribute between 18%-28% to the overall company revenue (Forrester Research, Inc., 2019) and it was found that effectively managing resellers is fundamental to increasing speed to market, reducing costs, mitigating risks and supplementing service capability gaps (Hennart, 2022). Grand View Research Inc. (2022) has presented that Customer Relationship Management investment is expected to reach USD \$157.6 billion by 2030 a 13.3% increase from 2022.

The concept of Customer Relationship Management (CRM) began to receive profound focus and has been widely discussed since the early 1990's (Ngai, 2005). CRM has been an integral part of business strategy. CRM has been defined as the approach organisations take to understand customer behaviour to enhance and build long-term relationships, trust, loyalty and long-term relationships with customers thereby driving profitability (Ngai, 2005).

In the context of multinational enterprises, the global strategic environment of business is changing at an unprecedented pace due to the rapidly changing business landscape, technological and digital transformation (Sharma, Saha & Balaji, 2022) saturation of the current markets, growth of new markets and the salience of the digital age (He et al., 2020). The shift of global and political structure is a challenging shift in the strategic vision and strategies for many multinational organisations (He et al., 2020). As a

consequence, the changing models of collaboration and nature of partnerships requires a new fresh perspective. Multinational enterprises must revisit their established business models to facilitate collaboration and oversee relationships within the evolving ecosystem to understand and manage partnerships and meet the swiftly changing expectations and attributes of current and prospective business partners (He et al., 2020).

As a result, manufacturing firms are shifting and increasing their attention to building strong business relationships with their partners which acts as the driving force to successful strategic alliance and internationalisation strategies in order to successfully achieve competitive advantage and share risks in foreign markets (Barnes et al., 2010). Therefore, non-equity market entrance strategies for multinationals amplifies the significance of business-to-business relationships and becomes even more important as the MNEs depend heavily on the agents to act in the best interests of the MNE.

Kingshott (2006) highlights that mutual unvoiced expectation and obligation are key determinants and crucial aspects to building commitment and trust in long-term relationships (Kingshott & Pecotich, 2007). When partners have common beliefs about appropriate behaviours, goals and what is considered important, they are more committed to the relationship and easily develop trust in each other (Morgan & Hunt, 1994). The individual perceptions, the values and perceptions of obligations held by both parties within the relationship and a party's implicit and explicit beliefs of promises are key to building trust, commitment, and co-operation in relationships.

Scholars have attempted to address and explain the relationships and interactions between Western MNEs and their MENA foreign partners (Barakat, 2021) principals and their agents from a number of theoretical perspectives by refining the formal agreements between the parties (Fuchs, 2007; Mitnick, 2019). There is a need to understand a more expansive consideration, the deeper aspects of information processing to explain behaviour and perceptions, and increase commitment and trust that affect the complex, multi-faceted and interdependent relationships between Western MNE firms and their reseller networks in the MENA region (Kingshott & Pecotich, 2007). Psychological aspects are therefore inherent in business-to-business relations and intertwined in

relational and social exchange theories, an important area which has been largely unexplored (Kingshott & Pecotich, 2007).

There is a plethora of studies of the psychological contracts in the lexicon of Human Resource Management (HRM) discipline, presenting psychological contracts as an important construct to understanding relationships and behaviours (Ali, 2020) but there is rather underdeveloped research of psychological aspects and their presence in the study of principal agent theory or business- to -business relationships (Kingshott & Pecotich, 2007; Kingshott et al., 2020; Blessley et al., 2018). Abi-Raad (2019) underscores the significance of examining the business relations between Middle East and North Africa (MENA) region and Western companies due to the heightened cross cultural and political complexities impacting corporation and global trade. Therefore, psychological contracts in this study will be used to explain the complexities of human behaviour in the principal-agent relationship within the context of Western and MENA region.

1.3 The Research Gap

The analysis is based on the need to understand the psychological contracts between Western and MENA firms. Within the context and modern era of globalisation and the Fourth Industrial Revolution, organisational executives are required to understand the business norms, cultural norms, and social values of business partners as part of their internationalisation strategies when conducting international business. Within this context the understanding of the variables relating to the behaviours, thoughts, feelings and attitudes holds even greater significance when partnering with Middle East and North Africa foreign partners where culture, political structure and management characteristics differentiate significantly from the rest of the world (Abi-Raad, 2019).

Organisations differ across a multitude of different spectrums including socio-cultural dynamics, size, management theories and when they interact the prospect of misunderstandings, conflicts and opportunism are high, and many business relationships end in disarray (Struwe & Slepnirov, 2021). Contemporary academic literature in relationship marketing has shifted its focus and highlights the importance of evaluating the cognitive dimension of business- to- business interactions and business decision-making which have serious consequences to business-to-business

relationships and to strategic alliances (Blessley et al., 2018). Mungra & Yadav (2020) support this view and present a shift in focus toward relational interactions from transactional interactions.

The relational dimension of relationships is significant for this research as it pertains to the relationships characterised by the metal process of how a foreign partner may think and feel (Islam et al., 2023). This is driven by interpersonal cognitive formation of trust from shared socio-cultural norms, mutual obligations and expectations (Islam et al., 2023) and therefore closely linked to psychological contracts. Despite the increasing interest of understanding business relationships and ways of doing business prevalent in many cultures such as Wasta in the Arab World, Guanxi in China or Blat in Russia remain relatively unexplored (Weir et al., 2019). This research aims to bridge the gap through applying psychological contract theory to addressing unspoken expectations and perceptions of the foreign partners/agents. Simiar (1983) research findings suggest that there are two major reasons for internationalisation failure into the MENA region which are: understanding the culture and customs of doing business, and lack of organisational congruence among them. For multinational enterprises to prosper in the MENA region it is essential to understand how business relationships function across the Arab culture (Toumi & Su, 2023).

Western corporate giants such as Carrefour, Entertainment Holdings Inc. (AMC) and Heinz faced significant challenges entering the MENA region. Carrefour ventured into the Algerian market in 2006 teaming up with a local private company, however, after only two years the company exited the market (Vidalon, 2015). Entertainment Holdings Inc. (AMC) recently announced its exit from the partnership in Saudi Arabia (Jones, 2023). Lastly, Heinz was banned in Israel in 2015 for not containing enough tomato solids. Toumi & Su (2023) highlight the limited and scarcity of extensive research exploring the influence and impact of relationships between Western multinationals entering Arab nations.

The paper argues that understanding the psychological contracts is an important aspect to relationship development within the principal agent theory that affects business- to-business relationships within the cultural context of the Middle East. Combining insights from the psychological contract theory and principal agent theory within the Middle East

context can help to understand the dynamic development of business-to-business relationships that significantly impact the success to multinationals' internationalisation strategies and strategic alliances in these regions. The Middle East culture and economic setting provides an opportunity to explore the psychological contracts in relationship development.

1.4 Theoretical Contribution of the Study

Recent research has extensively investigated the influence of agreements between MNEs and foreign partners (Miller et al., 2020) however researchers have made little attempt to address the impact of psychological aspects influencing MNE and foreign partner relationships in dispersed geographic areas where the cultural landscapes such as socio-cultural norms, beliefs, and values have significant influence on business relationships and warrant further investigation (Karacay et al., 2019). Psychological contracts theory provides a unique lens through which we can gain a deeper understanding of foreign partner behaviour, and expectations to explain and enhance trust and commitment between business partners as a strategic approach to building alliances as part of the internationalisation strategy (Bi, 2019).

The research aims to add the psychological aspect to the widely acknowledged and renowned Principal Agent Model developed in the 1970's which examines the contractual relationship and interactions to drive alignment between the principal (MNEs) and foreign partners (Raboisson et al., 2021).

1.5 Business and Practical Contribution of the Study

To foster trust, build strong bonds with foreign partners, managers must understand the psychological aspects that impact behaviour within the cultural context (Mora Cortez & Johnston, 2020). The highly conservative socio-cultural and business practices of Middle East and North Africa countries make it difficult and challenging for MNEs to do business in these regions (Metwalli & Demello, 2020). Each year, organisations allocate in excess of \$12 billion towards customer relationship management, aiming to gain insights and build strong relationships with foreign partners across dispersed geographic nations (Zhang et al., 2016). Weak relationships between MNEs and partner firms often lead to failure in internationalisation strategies, poor profitability, reduced market share and weak competitive position (Lambert & Enz, 2017).

1.6 Purpose of the Study

The purpose of this research is to investigate and explore the psychological factors that lead to relationship failure between multinational OEMs and foreign partners in the Middle East North Africa emerging markets, extending beyond the classic contractual relationship and incorporating constructs of psychological process in relationship development. These encompass a wide range of mental and emotional aspects that form the mental and emotional state that impacts thoughts, emotions, beliefs, attitudes which significantly affects business relationships and decision-making. The objective and contribution of this study is to provide strategies that MNEs can adopt as part of their internationalisation strategy as they enter into Middle East North Africa emerging markets, to enable strong, long-term partnerships, competitive advantage and business growth.

The study presents two key deliverables and contributions to international business literature. Firstly, it addresses the research questions on the psychological contract factors leading to partnership failure between MNEs and foreign partners as well as the factors that foster the development of long-term, strong relationships with resellers. Secondly, this research seeks to extend the current principal-agency theory through the application of psychological contract theory to drive profitability and mitigate agency costs. To achieve this the following questions were posed:

Research Questions and Objectives

Table 1

| Research Questions (RQ) | Research Objectives (RO) |
|--|--|
| What are the psychological factors that affect relationships between local MENA region companies and Western companies? | To explore the psychological factors that affect the relationships between local partners in MENA Arabic speaking regions and Western partners. |

| | |
|--|--|
| RQ1: How do psychological contracts affect the relationships between MNEs and independent distributors? | To explore the psychological factors that affect relationships between non-equity Western and MENA region firms. |
| RQ2: What are the key factors that would contribute towards the enhancement of psychological contract between MNEs and independent distributors? | To understand and gain insight into the key psychological factors that positively impact business relationships between non-equity Western and MENA region firms. In addition, the objective is to implement the findings as part of MNEs' internationalisation strategies to drive competitive advantage. |

1.7 Thesis Outline and Structure

Chapter 1 introduces the thesis topic and provides the research problem and contextual background of the thesis. In this chapter the purpose and contribution of the research is defined.

Chapter 2 contains a review of current literature in principal agent theory and psychological contracts which provides a theoretical background, key definitions and concepts, and academic literature on key constructs.

Chapter 3 contains the research hypothesis, methodology, and conceptual model for improving psychological contracts in the MENA region.

Chapter 4 outlines the research methodology, research philosophy and design. It describes in detail research techniques and procedures, target population, sampling data collection, data analysis and concludes with ethical considerations and quality controls.

Chapter 5 draws major key themes from the research which are presented and discussed.

Chapter 6 links major themes with academic literature and practical applications of the research questions are discussed.

Chapter 7 draws final conclusions and lessons learnt. Proposes business recommendations, implications for future research and the study's limitations.

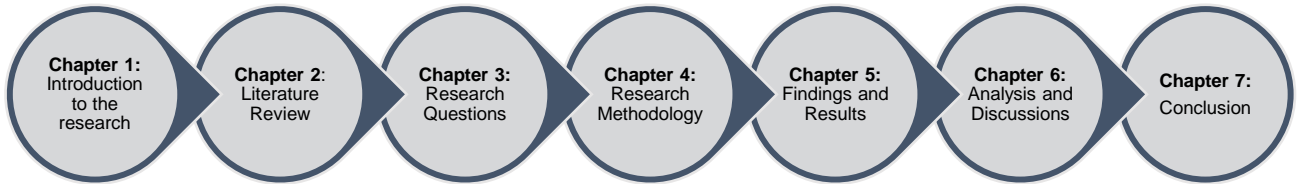


Figure 1

Chapter 2

Theoretical Background & Conceptual Backdrop of the Paper: Literature Review

2.1 Introduction

This chapter begins by outlining and providing an insightful backdrop of the contemporary global economy and emerging markets, business relationships, Western firms and MENA region Arab speaking countries. The importance of business relationships is highlighted particularly between Western and MENA firms, mode of entry and importance of independent distributors. A theoretical analysis of psychological contract and principal agency theory are presented, followed by a review and critique of the principal agency problem. The chapter concludes by presenting the key theoretical constructs that may affect psychological contracts in building relationships between Western and MENA region firms.

2.2 Overview: Global Economy and Emerging Markets

The world economy has experienced profound transformation and is anticipated to exhibit unequal future patterns of globalisation (Jakovljevic et al., 2020). The global business landscape is more intertwined and complex than ever before, with deepening internationalisation and global power shifts of the largest economies in the world, from the dominance of the United States and Europe to the growing dominance of emerging markets (Hassan et al., 2017). According to *The Long View How will the global economic order change by 2050?* report by PwC (2017), economists projected that by 2050 advanced economies were expected to stagnate with an averaging growth rate of 2.5% while emerging markets were expected to have accelerated and have sustainable growth of 5% year- on- year over the period, predominantly driven by advancements in technology, trade and growing population (Deutsche Bundesbank, 2020).

Emerging economies act as the growth engines and primary targets for business opportunity and foreign direct investment (FDI) (Paul, 2020), with vast natural resources (Vadra, 2018) and representing approximately 35% of global GDP and were expected to grow to 50% of global GDP by 2050 (PwC, 2017). This surge of rapid economic growth and financial impact on the world economy presented a major point of focus

(Jakovljevic et al., 2020) as they transformed into desirable markets for foreign direct investment (FDI) (Corner et al., 2021).

Examining emerging economies has become increasingly important to both researchers and managers who are concentrated on internationalisation strategies of global corporations to prosper in alluring yet unfamiliar geographical, socio-economic and political environments (Corner et al., 2021) particularly in the Middle East market, renowned for its modern infrastructure, political and economic stability and projected growth (Hassan et al., 2017). Middle East and North Africa Region is home to one of the wealthiest countries in the world with global significance and major economic power, located in a geographically important area at the cross-roads of Europe, Africa and Central South Asia (Madureira, 2017). Saudi Arabia, Qatar and United Arab Emirates have become the new hub for petroleum and global pricing system (Madureira, 2017).

2.2.1 Importance of Relationships in MENA and Impact on Business Performance

Globalisation has led to the proliferation of diverse partnerships across national borders (Paul, 2020) and the infusion of technological advancements and contemporary digitalisation has triggered open and more fluid business structures, propelling the need for interconnectedness and deep focus on relationship building between MNEs and foreign partners (Nambisan & Luo, 2021). Forsgren & Holm (2021) shared this view and highlighted that it was crucial to develop deep meaningful relationships with foreign partners as part of a firm's internationalisation strategy to access different networks, drive productivity, build value and strengthen the position of the firm in foreign markets. Kwok et al, (2019) emphasised the significance of relationship capital and highlighted mutual trust as central to reciprocal commitment as it acted as the key ingredient to competitive advantage and enhancing business performance.

“In recent years the importance of Middle East countries as trading partners has grown dramatically” (Kaynak, 2015). This is predominantly due to the rising levels of income, level of developing infrastructure and sophisticated consumers, Growing purchasing power has made these markets of growing importance for Western companies (Kaynak, 2015). There is limited existing research in academic literature on the Middle East North Africa region business landscape with respect to normative aspects such as cultural

values that characterise commonly shared assumptions, values systems, beliefs, expectations, and norms of conducting business (Abi-Raad, 2019; Budhwar et al., 2021). As a result of the escalating geopolitical and economic significance of the region there is a significant need for further empirical and theoretical insights into the Middle East North Africa region (Budhwar et al., 2021). Owing to the swift economic development in MENA countries, the importance of effectively managing business relationships between Eastern and Western counterparts is garnering increased attention within scholarly and professional spheres (Abosag et al., 2021).

Cross-national relationships are heavily impacted by culture (Dobrucalı, 2020). In MENA countries there is a deep-rooted cultural basic tenet of business, that emphasises deep connections and strong relationships to doing business, achieving a position, and succeeding in the market (Berger et al., 2021). Islamic culture is one of the most influential elements shaping contemporary value systems and holds immense prominence in determining human behaviour and interactions (Buthina, 2020).

A consequence of poor relationship management is poor financial performance (Zhang et al., 2016). Megheirkouni et al. (2020) argued that the socio-cultural barriers and domestic business practices had a major impact on businesses in the Middle East. According to Ali et al. (2021) business in emerging markets was heavily dependent on trust-based relationships and deep meaningful informal relationships became central to expansion success. These findings emphasised the distinct attributes and complexities of emerging markets and how these distinguishing features impacted the internationalisation strategies and relationships between MNEs and foreign partners, a subject that has hitherto been largely unexplored (Demirkan et al., 2019). Social networks, relationships and interactions hold great importance in emerging economies for both local and foreign firms and despite its importance there is a scarcity of studies addressing emerging markets (Berger et al., 2019).

2.3 Literature Review of Key Concepts

2.3.1 Multinational Enterprises (MNE)

MNEs are companies that extend their business activities outside international borders (Martínez-López et al., 2020). When implementing an internationalisation strategy, MNEs had three options when entering a market. These options included establishing

wholly owned subsidiaries, forming joint ventures (JVs), or appointing independent distributors (agents) to represent the MNE in a given market. Wholly owned subsidiaries were characterised as foreign-based entities (independent distributors) that were completely owned by an MNE in order to exercise authority and oversee operations within international markets (Agarwal & Ramaswami, 1992). Joint Ventures were described as foreign-based entities that involved the participation of one MNE alongside at least one equity partner. (Agarwal & Ramaswami, 1992). The relationship between an MNE and an independent distributor was described as a business arrangement where the independent distributor was granted the rights to distribute and sell the MNE's products or services in a specific market. The distributor operated separately from the MNE and was responsible for marketing, sales, and logistics activities in the designated market. Unlike a wholly owned companies or a joint venture, the independent distributor maintained its own legal and financial independence while representing the MNE's interests in the market.

2.3.2 Internationalisation Strategies & Entry Modes between Western and MENA Firms

The choice of entry into foreign markets was a pivotal strategic decision which could result in significant outcomes for the success of internationalisation which involved the level of resource commitment in different markets that had different levels of risk, control, and profit (Ripollés et al., 2012). There are enormous differences between Middle Eastern markets and Western markets. Studies suggested that MNEs frequently selected the low resource commitment strategy when expanding into foreign markets (Ripollés et al., 2012). These choices were strongly influenced and significantly shaped by factors such as cultural distance, uncertainty, and risk in the host country (Ripollés et al., 2012). This was particularly important when studying Western MNEs entering Middle Eastern markets due to the vast cultural differences and laws of commercial partnerships. Zapkau et al. (2020) defined international entry mode as the organisational structure a firm chose when entering foreign markets. MNEs could select from two main equity options (1) equity modes and (2) non-equity models (Zapkau et al., 2020). The term equity entry modes referred to the joint ventures and wholly owned subsidiaries of MNEs while non-equity entry modes denoted formal contractual agreements between independent foreign channel partners and the MNE ((Zapkau et al., 2020). Research

found that particularly in MENA regions Western MNEs typically selected the non-equity entry model to mitigate business risk (Rêgo, 2022). This study focused on non-equity entry modes of Western MNEs in MENA markets.

2.3.3 Importance of Business-to-Business Relationships, Partnerships and Networks

Developing and maintaining long term and meaningful relationships is significant to reduce uncertainty, share profits and increase commitment (Abosag & Lee, 2013). Business- to- business relationships focus on the interaction between firms which creates the business ecosystem (Sharma, Saha & Balaji, 2022).

2.3.4 Middle East and North Africa (MENA) Region

In academic literature, Middle East was addressed by several different terms Middle East, The Greater Middle East, The World and the Middle East and North Africa Region (Budhwar et al., 2021). In the context of this research Middle East included Arabic speaking countries in Middle East and North Africa region.

2.4 Literature Review: Conceptual Framework

2.4.1 Principal Agent Theory

The principal agent theory was one of the most widely examined and thoroughly studied and established theoretical frameworks (Alfatlah et al., 2022) and used theories in international business research that have significantly influenced how global organisations are structured and managed (Dirk, 2019). The principal agent theory was initially introduced in the early 1970's with the first explicit articulation of the theory in 1976 by Jensen and Meckling who laid the foundation of today's modern understanding of the economic or transactional interaction and social exchange relationships between the principal and the agent (Song et al., 2020).

In this study the "Agent" was defined as any channel intermediary (Aulakh & Gencturk, 2000) who acted on behalf of the owner (Song et al., 2020) to market and service the principal's product in a foreign country. The agent who performed activities for the principals may have been subsidiaries, joint ventures and independent entities such as foreign distributors. In this study we focused on independent entities or foreign distributors. The term "Principal" was defined as the business owner who delegated

authority to agents (Song et al., 2020) that sold its products in foreign countries (Aulakh & Gencturk, 2000). The principal contracted an agent to perform a service function on behalf of a principal and the agent chose a level of his capacity in response to a contract offer (Dirk, 2019). Agency theory at its simplest form focused on the problems that may have arisen when the principal delegated a task to an agent in which relationships were regulated by a series of contracts (Schillemans & Bjurstrøm, 2019). Agency theory was used to address the ancient phenomenon of business relationship challenges which has persisted since the evolution of firms and has taken different shapes over time and increased significance in the context of globalisation (Agarwal & Singh, 2021).

2.4.2 Principal Agent Theory Dilemma: Key Findings

Academic literature focused on different types of tight control mechanisms that could be employed by principals to exercise over agents in foreign markets as part of their internationalisation strategies to achieve performance and positive outcomes in exchange relationships (Aulakh & Gencturk, 2000; Abbott et al., 2020). Zardkoohi et al., (2017) argued that the agent and the principal acted opportunistically which presented conflict of interest. Song et al. (2020) supported this argument stating that agent and principal were both rational economic subjects whose main objective and goal was to maximise their own interests.

Cowden et al. (2020) further extended the principal agent relationship by analysing the imbalance of information between the principal and the agent, where one party had more information or held knowledge not available to the other. These results echoed the results reported by Abbott et al., (2020) who stated that the agent had an information advantage over the principal which could have been exploited to evade principal control. Evidence from Treiblmaier (2018) reinforced this perspective and underscored the complex and intricate information balance between agents and principals. This indicated that the agent had access to diverse information sources from customers, suppliers, partners, and comprehensive market understanding that principals lacked, alluding to the principals' awareness.

Ramirez & Wood (2019) described this as a moral hazard inherent in the principal-agent paradigm arising from the behaviours and actions taken by the agent that could harm the principal. Cattell et al. (2020) supported this view and argued that the agent

discontentment further led to agents utilising information acquired from the principal to their own advantage. Agency theorists described this as shirking, the tendency for agents to work in their own interest as they are shielded from full consequences (Shapiro, 2005). This misalignment led to “agency costs” incurred by the principal as a result of the actions taken by the agent (Shapiro, 2005). Jensen & Meckling (1976) defined agency costs as the financial costs made by the principal in an attempt to monitor the agent, and the cost to establish trust and alignment (bonding costs), and the residual losses which represented any remaining negative outcomes suffered by the principal. To reduce these costs, it was imperative to create alignment of interest between both the principal and the agent (Cuevas-Rodríguez et al., 2012).

These challenges and agency costs arose as a result of divergence between ownership and control whereby the principal (the owner) lost control when appointing the agent (Zardkoohi et al., 2017). According to Treiblmaier (2018) the greatest challenge in agency theory lay in selecting the right agent and building long-term strong relationships based on trust. The principal-agent problem served as the fundamental foundation for the fiduciary duties found in contemporary contractual agreements that governed and regulated conventional business structures and the formation of relationships between principals and their agents (Dolphin, 2022; Schillemans & Bjurstrøm, 2019). In essence, fiduciary duties utilised contractual agreements with the aim of providing a legally binding framework to guide behaviour towards trust, and loyalty, and to mitigate agents from self-interest (Dolphin, 2022). Berman & Lake (2019) shifted from a formal contractual approach to employ alternative methods for establishing trust between principals and their agents through the use of rewards to inspire agents to exert effort and deter non-compliance.

2.4.3 Major Shortcomings of the Agency Theory: The Principal-Agent Problem

The principal-agent framework primarily focused on the design and use of contracts between collaborating partners to drive cooperative relationships, business alignment and outcome (Hypko et al., 2010; Abbott et al., 2020). The central focus of considerations lay in the development of principal contracts designed to align with the interests of the principal. Principal-agent theory overlooked the role of psychological aspects that affected relationships, the unspoken expectations and implicit obligations of the agent that were predicated on the social and cultural norms.

Pandey & Mookerjee (2018) stated that “psychological wellbeing and emotions are the currency of human relationships”. The impact of implicit unrealised expectations was stronger than mere disappointment that evoked negative emotions (Zhang & Zhang, 2021) and resulted in a loss of trust and commitment (Khan & Eilert, 2021). Zardkoohi et al. (2017) further argued that the agency theory was too limited to fully describe principal–agent relationships. Contracts were not sufficient to prevent self-interest and opportunistic behaviour by the agents (Ceric & Ivic, 2021). Deep meaningful relationships were the driving pinnacle to motivate the agent or foreign partner to act in the greatest interests of the principal while ensuring that similarly agents’ interests were not ignored.

Furthermore Abdul-Muhmin (2005) argued and challenged the view of the fundamental and widely accepted assumption that the agent and principal act opportunistically. Abdul-Muhmin (2005) stated that opportunism was not a universally dysfunctional effect on business relationships but rather it was understanding the business norms and culture that played a dominant role in the development of the relationship. Abdul-Muhmin (2005) further illustrated this by arguing that Western cultures’ publishing company financial data is the norm, while in Middle East the commercial and industrial environment is predominantly dominated by family-owned businesses and financial data is top secret, highly-protected and considered normal and way of doing business (Abdul-Muhmin, 2005). Thus, the dimension of trust was believed to have played a central role in long-term relationships. These results were similar to those supported by Treiblmaier (2018) who stated that the biggest challenge for the principal was appointing the agent and developing strong long-term relationship based on trust. Despite the proliferation of research, the principal-agent model has remained unchanged.

Contemporary Principal-Agent Model

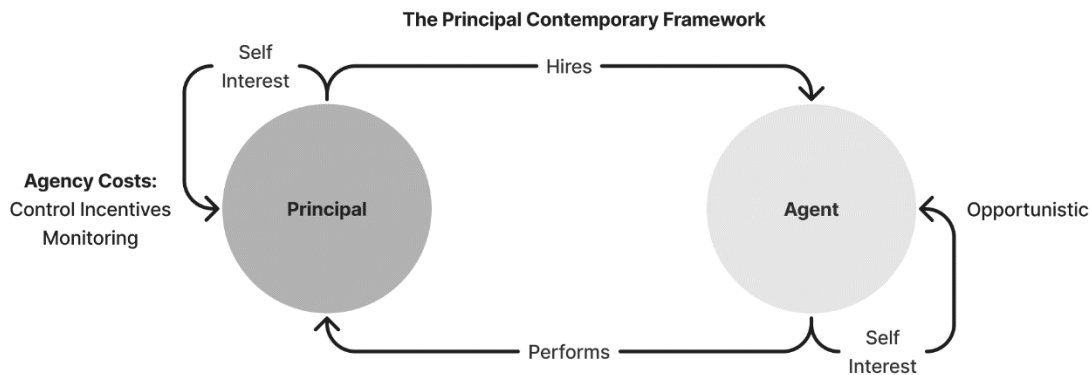


Figure 2

2.5 Psychological Contracts

The concept of psychological contract was pioneered by Chris Argyris dating back to the early 1960's Ali (2020) and since then has made significant contributions to academic literature and our contemporary understanding of human interactions and relationships that shape behaviour and attitudes (Kingshott et al., 2020).

Psychological contracts are intrinsic in nature and are fundamentally part of relationships where people interact with each other (Kingshott et al., 2020). Psychological contracts are perceived expectations or obligations (Du & Vantilborgh, 2021) and are therefore not imposed from outside but rather emerge as a result of human interaction itself (Kingshott et al., 2020). The concept of psychological contracts is intertwined with the dynamics of how people relate to and engage with each other in various types of relationships and therefore by its very nature psychological contracts are deeply grounded in social exchange theory (Tekleab et al., 2020).

Blessley et al., (2018) further expanded on this concept presenting two different orientations; first, transactional psychological contracts which were the perceived obligations associated with financial transactions concrete obligations such as price, quality and delivering as promised and second, relational psychological contracts which were the perceived obligations with interpersonal exchanges such as loyalty and commitment, placing psychological contracts somewhere in between the two constructs. Psychological contracts developed due to the cognitive beliefs from the

relationship during the relationship and could change over time and in the context of business-to-business relationships, psychological contracts co-exist with written contracts. (Blessley et al., 2018).

Psychological contracts are implicit and perceptual in nature (Mihelič et al., 2021), unwritten informal beliefs not explicitly documented (Korczynski, 2023), perceptions, and expectations about mutual obligations between an individual and party they interact with, predicated and influenced by cultural norms, business norms and values (Atkinson & Pareit, 2019). It represents what an individual is owed to them for their contribution (Kingshott et al., 2020). Unlike political and economic variables in the business landscape, psychological dynamics were more hidden and most difficult to quantify (Williams, 2019). DeCampo (2007) argued that psychological contracts were not expectations but rather consequences of promises either implicit or explicit resulting in obligations and reciprocal exchanges. Kingshott & Pecotich (2007) supported this view and stated that psychological contracts were promissory in nature and inherently relational based on the promises made.

2.5.1 Breach of Psychological Contracts: “Rules of the Game”

Borrowed from social psychology, a breach in psychological contracts or the more recently termed “the dark side of B2B relationships” (Sharma et al., 2022) is a result of mismatching personality, sensibilities, cultural differences and misunderstanding of beliefs about the partner’s perception of the intention about business relationships trading, knowledge diversity and ethical conduct of how partners deal with and prevent unethical practices (Sharma et al., 2022).

The “rules of the game” fundamentally involves and refers to the explicit and implicit norms, expectations of honesty, decency, fairness and trustworthiness that regulate strong relationships (Leonidou et al., 2018). The breach of psychological contracts was described as the moral violations and deviations from established norms (Leonidou et al., 2018). When an individual’s beliefs of the perceived and mutual expectations and exchanges were not validated nor fulfilled between parties, the psychological contract was considered to have been breached (Blessley et al., 2018). The “violation” or going against the ‘rules of the game’ both implicit and explicit, signified and governed the dynamics of the relationships which often resulted in endangering the overall strength

and functioning of the relationship, disappointment and ultimately termination (Leonidou et al., 2018).

A classic example of such was Toyota suppliers who experienced a deep sense of disappointment when Toyota continued to request price reductions regardless of unfavourable financial circumstances. In the Japanese context, this action went against the establishment of a social agreement where larger, more established corporations typically extended their success to collaborate with business partners during prosperous periods and offered support during challenging times. (Leonidou et al., 2018). Research has found that when psychological contracts were breached, it led to a steep decline in work effort, trust, poor organisational commitment, and performance (Taegoo et al., 2018). Leonidou et al., (2018) argued that this extended beyond performance and commitment and presented a deep threat to the business relationship, continuation of the relationship and damaged reputation, with the investment devoted to the relationship being lost.

2.5.2 Transactional and Relational Psychological Contracts

There exist two distinct types of psychological contracts, transactional and relational (Atkinson & Pareit, 2019). Transactional psychological contracts are distinct short-term, quantifiable exchanges between entities (Atkinson & Pareit, 2019). Relational psychological contracts are less definite commitments which involve quantifiable and non-quantifiable exchanges as well as emotional engagement between entities (Atkinson & Pareit, 2019). The focus of this paper has been primarily on relational psychological contracts.

2.5.3 Key Theoretical Constructs

2.5.3.1 Trust, Commitment and Satisfaction

The topic of trust has steered extensive research in the disciplines of psychology, sociology and economics. As delineated by Ayari and Bouillia (2022), trust encapsulates two primary components: emotional trust and calculative trust. Calculative trust is anchored in reason and rationality, whereas emotional trust is deeply rooted in intuition and instinct (Ayari & Boulila, 2022). Calculative trust arises from strategy, optimisation, and forward-thinking while emotional trust is grounded in heuristic decision-making processes (Ayari & Boulila, 2022). Emotional trust is grounded on personal relationships

that often exist within networks which allows individuals to move beyond rational and pragmatic calculative trust to take the leap of belief that trust will be upheld (Ayari & Boulila, 2022).

Academic literature has highlighted various culturally rooted forms of relationships which have emerged such as “Guanxi” in China, “Blat” in Russia and “Boon Koon” in Thailand, all of which are deeply embedded in their unique cultures, and all indicate and present the progression of business-to-business relationships tied to the development of trust and commitment (Abosag & Lee, 2013). Abosag & Lee (2013) Characterised trust as the readiness of a particular party to place themselves in a vulnerable position, and that this readiness is guided by the anticipation that another party will fulfil crucial actions.

Bryan & Forough (2022) highlights the close relationship between trust and psychological contracts. Usman et al.'s (2017) findings suggested that trust was the key to establishing long-term strong customer relationships. MNEs organised and structured relationships through contract design and enforcement to drive corporative relationships, which largely have defused and become institutionalised (Cantwell et al., 2010). Trust however is deeply rooted in a person's cultural, social and religious background (Brockman et al., 2022) and therefore religion plays an important motivational role in Middle Eastern culture and business etiquette, outlining a set of values, beliefs and norms that influence obligations and expectations in interpersonal relationships (Maksum & Kamaludin, 2023).

'Commitment' has been extensively examined and is a central construct in academic literature in studying interorganisational relationships' (Mungra & Yadav, 2020). Abosag & Lee (2013) characterised commitment as an ongoing aspiration to nurture relationships of implicit and explicit exchange and sacrifice to the benefit of all involved parties. Commitment involves exposing oneself to vulnerability and therefore organisations will only pursue business partners they can trust and are willing to make these exchanges with in the short-term in order to have a long-term relationship (Mungra & Yadav, 2020).

Distributor satisfaction predominantly related to the transactional psychological contract perspective referenced by Blessley et al. (2018) that spoke to concrete obligations relating to pricing, delivery and quality.

2.5.3.2 Religious and Cultural Sensitivities

In the MENA region the economic system largely follows the basic principles of the Qur'an. This is vastly different from Western inheritance practices, as adaptation is much easier in the absence of sacred laws. As such, commercial partnership models are influenced by Islamic principles and act as an inherent way of conducting business where profit and losses are shared and there is a shared risk approach more equitable among the involved parties (Kuran, 2005). In nations where Islam holds the status of state religion, the lines between secular and religious law are blurred such that there is little discernible distinction (Abbasi & Hollman, 1993). As a result, there are several cultural idiosyncrasies unique to these cultures and countries, particularly from the viewpoint of a Western business and which may have implications for business dealings in the MENA region. For example, Middle Eastern culture is greatly influenced by a belief in destiny and the will of a higher power, so the actions and choices of individuals aren't as consequential as in Western cultures (Abbasi & Hollman, 1993). Major Islamic holidays such as the month of Ramadan during which the faithful will fast for the duration of the month, have been shown to influence the frequency of business transactions (Abbasi & Hollman, 1993). Non-verbal communication and cues in predominantly Muslim countries differ greatly as well. By way of example, it is considered disrespectful to give or accept anything with the left (toilet) hand or to cross your legs and show the soles of your shoes (Abbasi & Hollman, 1993). Personal relationships are pivotal to negotiations in the MENA region and when engaging in business discussions Abbasi & Hollman (1993) recommend not getting straight to the point but to first engage in small talk, bearing in mind that initial meetings between parties are for the purpose of establishing a harmonious rapport.

2.5.3.3 Verbal and Non-verbal Communication

Middle East North Africa region societies differ greatly from Western societies and were characterised and pioneered by anthropologist Edward Hall in 1976 as a high-context societies (Semaan et al., 2017). High-context and low-context society refers to the way individuals interact and communicate. Barkai (2008) described communication in low-context societies as direct and implicit, that heavily relied on verbal communication. In contrast high-context societies embedded information in the context, it was implicit, and gestures signified important key information rather than explicit verbal expression

(Barkai, 2008). Therefore, exploring communication was crucial as it that could have influenced and impacted a psychological contract between business partners.

In terms of communication, Zaharna (1995), used Hall's high and low-context cultures to distinguish between American society as low-context culture, and Arabic society as high-context culture. While America does not represent the whole of the West, and Arabia does not represent the whole of MENA, they are both significant in their respective regions. Low-context cultures such as the West relied on the code imbedded in their language to convey explicit meaning, whereas high-context cultures such as Arabic cultures may have only alluded to meaning in the language, relying on the listener to decipher the implicit meaning through contextual cues (Zaharna, 1995). Low-context speakers carried the burden of conveying meaning through their use of their language, while high-context listeners decoded the messages conveyed through the speaker's context (Hall, 1976). Zaharna (1995) also observed that Arabic speakers tended to make use of imagery and creative metaphors to make their points more often than English speakers who preferred accuracy, facts, and figures to convey theirs.

Non-verbal communication is a fundamental aspect of human interaction and at times may even outweigh the impact of spoken language particularly due to the cultural and contextual influences that can significantly influence interpretation (Abed et al., 2023). Ibrahim et al., (2022) states that non-verbal communication encompasses a wide range of exchanges that manifest through behaviours including facial expressions, body posture, gestures, tone of voice and attitudes that enable the message sender to convey the message and support the dialogue.

2.5.3.4 Political Structure

The Middle East North Africa (MENA) region is predominantly characterised by monarchies and is renowned for its diverse political systems (Kiggundu et al., 2013; Sim, 2023) with the six Gulf countries Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (UAE) often being considered more politically stable than their peers. Barsness (2018) emphasised that the monarchies tended to place greater importance on nourishing good relationships with tribal members, symbolising the significance of paternal and traditional influence into the national identities, safeguarding the honour of the traditional tribes and upholding the institution of the monarchy.

Understanding the political landscape and structure for international business is crucial for any business to trade and investment decision-making (Ghanayem et al., 2023).

2.6 Conclusion

This chapter outlined the shifting dominance of emerging markets in the global economy with a spotlight on the MENA region. Section 2.2 articulated the region's burgeoning wealth and rising prominence on the global stage. Section 2.3 provided context for further comprehension of the paper, dissecting key concepts such as distributorship, resellers, multinational enterprises, internationalisation strategies, and entry modes, the dynamics of B2B relationships, and defined the MENA region. Section 2.4 articulated a conceptual framework based on the principal-agent theory and provided critique of the principal-agency problem. Lastly, section 2.5 elaborated on psychological contracts both transactional and relational and their relevance outside of Western business practice, particularly in the MENA region. Chapter 2 built the theoretical and conceptual framework upon which the analytical endeavours of subsequent chapters are situated. The following chapter provides the conceptual model framework and research questions of the study.

Chapter 3

Conceptual Model Development Framework and Research Questions

3.1 Introduction

International business research has historically focused predominantly on contractual, formal agreements to form strategic alliances in foreign markets and as part of their internationalisation strategy. This paper explores the psychological factors and psychological contracts that affect channel partner relationships between Western MNEs and their foreign channel partners in Middle East North Africa region, with the aim of enriching the principal-agent theory, mitigating risk and agency cost by incorporating the psychological contract dimension. To answer the fundamental question of how psychological contracts impact and can be used to enhance long-term relationships between Western organisations and foreign channel partners in the Middle East North Africa region, two key questions were formulated and discussed in this chapter.

3.2 Managing Principal-Agency Theory Risk in non-equity market entry strategies of Western Companies in MENA region through psychological contracts.

Historically business and management researchers have focused on the analytical, rational and cognitive processing (Hawthorne & Chikeleze, 2022) as strategy seeking resolutions for relationship management. Pink (2012) in his widely acclaimed and *New York Times* best seller *A Whole New Mind: Why Right Brainers Will Rule the Future* challenged the prevailing orthodoxy of reductive and analytical thinking and argued that there is a compelling need for a more holistic and creative approach to problem-solving that can bring a deeper understanding and shift in focus. In his own words “‘forging relationships rather than executing transactions, tackling novel challenges rather than solving routine problems, and synthesizing the big picture rather than analysing a single component’ (Pink, 2012).

In recent years there has been growing recognition of the significance of emotions in the business context (Lerner et al., 2015). Current research in business and management has begun to recognise the significance and deep implications of emotions and psychological contracts as the micro foundation of strategic management (Akinci & Sadler-Smith, 2012). Nobel prize winner, Roger Sperry (1975) in his renowned 1975

findings suggests that the left hemisphere carries out analytical, rational thinking and logic while the right hemisphere is responsible for recognising relationships and disrupts decision-making (Martínez-Selva et al., 2006). Lerner et al. (2015) further states that “emotions powerfully, predictably, and pervasively influence decision-making in business”.

3.3 Principal-Agent Theory as a Process

Figure 2.1 illustrates the key elements that contribute to the breakdown of the principal-agent relationship. In this relationship the principal presents self-interest and seeks control of the agent through the implementation of initiatives and stringent monitoring facilitated by formal agreements, not only driving agency costs upwards, but often leading to dissolution of the relationship. The agent equally also behaves and operates with self-interest and opportunism, sometimes at the expense of the principal, indicating that both the principal and agent prioritise their own interests over collective objectives.

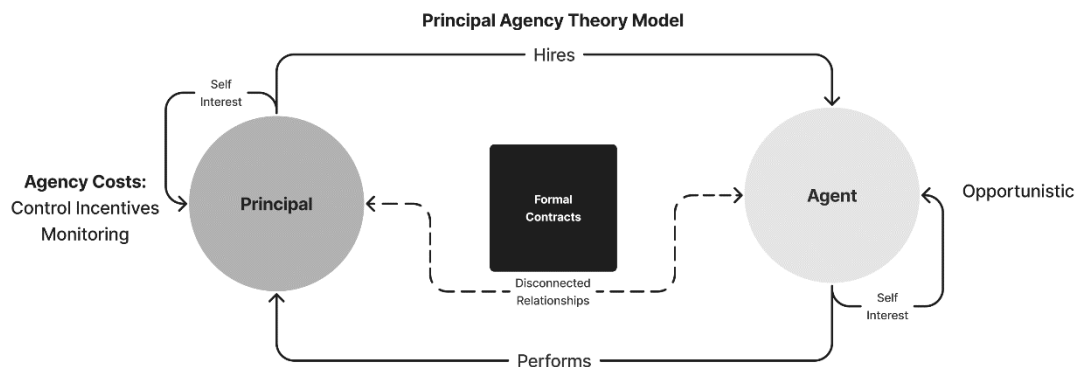


Figure 3

3.4 Proposed Conceptual Model

The proposed conceptual model seeks to expand the principal-agency theory by weaving together meticulously the key concepts of both formal and psychological agreements into a unified fabric, equally important ingredients in the ideal recipe for building strong, long-term relationships between business partners. The proposed model accentuates that the integration of psychological contracts, the emotional and

perceptual connotations of foreign partners are equally important in formal contracts and at times surpass formal agreements. The proposed theory of deliberately accommodating psychological contracts into business relationships will act as a competitive advantage to internationalisation strategies.

This theoretical, psychological contracts lens through which the model recommends that principals engage with their foreign partners, advances beyond the historic and traditional viewpoint of perceiving the agent as a hire. Instead, the model proposes a shift towards perceiving the agent as a “strategic partner” and therefore inherently creates a sense of equality. This fundamentally brings about a shift to a collaborative approach to the partnership and subsequently to performance from a uni-dimensional approach where the agent is performing for the principal, to a multi-dimensional approach to where both the principal and agent work together to achieve mutual performance, thereby transforming agency costs to a collective deployment of sharing costs, incentives, measurement and accountability parameters. This balance would then bring a sense of loyalty to and create a strong bond for both the principal and the agent who would act in the best interests of each other.

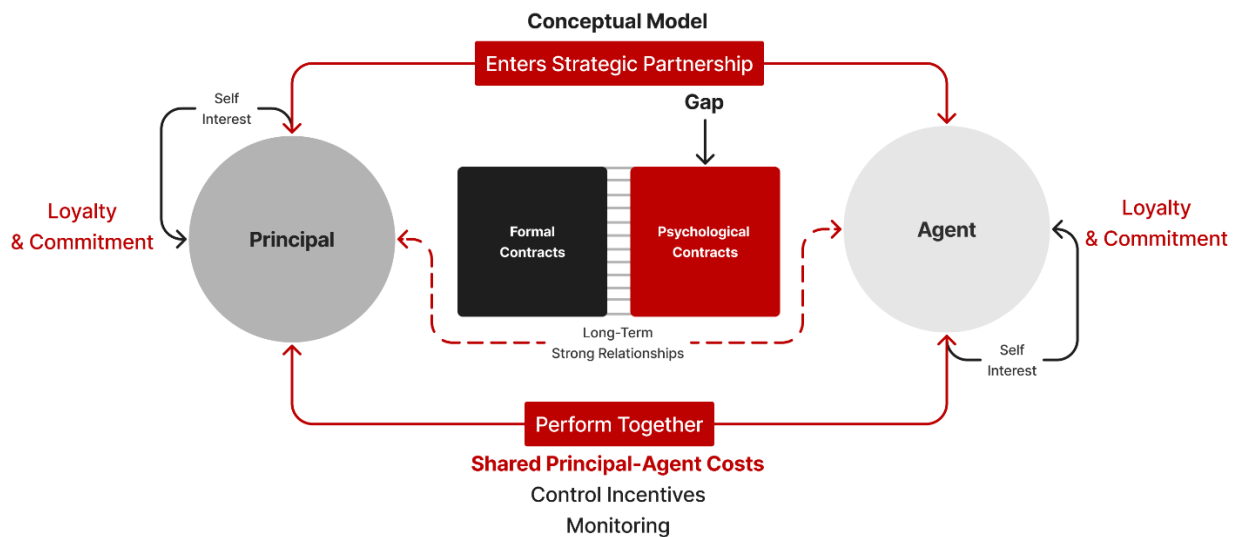


Figure 4

3.5 Research Questions

In order to explore the relationship between psychological contracts and relationships between MNEs and their foreign partners and understand the factors that contribute to

the enhancement of psychological contracts, the following research questions are addressed.

RQ1: How do psychological contracts affect the relationships between MNEs and MENA region foreign partners?

While the concept of psychological contracts was first introduced by Chris Argyle in the 1960s, it was not until the 1990s that the concept gained traction and further development. In her seminal paper, *Psychological and Implied Contracts in Organisations*, Denise M. Rousseau (1989) defined the psychological contract as an individual's belief in respect of mutual obligations and exchange between the individual and another entity. Since then, the construct has been developed and used to describe the employer-employee relationship, full-time and part-time employment differences, employment ideologies, and breach of contracts to name a few (Pate, 2006). In 2013 Smissen et al. (2013) explored a 'new' psychological contract based on shifting employer/employee values, and the construct is still in use today to explain the dynamics and commitment between employers and employees (Fantinelli et al., 2023).

It is evident that most of the construct's development has been in the HRM field, however, if Rousseau's (1989) definition is applied to business-to-business relationships and principal-agent agreements, where the agent becomes the 'individual' and the principal becomes the 'other entity' we can rewrite the definition in terms of the principal-agent theory. A psychological contract is an agent's belief in respect of mutual obligations and exchange between the agent and the principal. Psychological contracts are inherently implicit and in regions such MENA where implicit social cues are the norm, the construct may help Western MNEs navigate the local business landscape. The following chapters will answer the question of how psychological contracts affect these business relationships.

RQ2: What are the key factors that would contribute towards the enhancement of psychological contracts between MNEs and independent distributors/local partners?

This research study will explore and provide recommendations that Western multinational organisations can implement as part of their internationalisation strategies to develop strong relationships as they enter the MENA region.

3.6 Conclusion

This chapter provides the background through which the psychological contract construct, used predominantly in the HRM field, will be applied to non-equity business relationships between Western principals and MENA region agents given their social and cultural contexts. Section 3.2 highlights the importance of emotion in business to lay the foundation for the construct's use. Section 3.3 outlines principal-agent theory. Section 3.4 provides the proposed conceptual model using psychological contracts, in contrast to the current principal-agent theoretical model. Lastly Section 3.5 elaborates on the research questions proposed for this qualitative study.

Chapter 4

Research Methodology

4.1 Introduction

This section outlines and describes the research methodology, design and framework utilised to collect and process for data analysis and to address the research questions, offering a holistic outline of the strategic methodology followed in the study.

4.2 Proposed Research Methodology: Choice of Methodology

a. Research Philosophy

In scholarly research, academics use the terms philosophical worldviews paradigms interpretative frameworks (Creswell & Poth, 2018), and theoretical perspectives (Gray, 2018) interchangeably while presenting both commonalities and disparities of these corresponding schools of thought. For the purposes of this study the interpretivist philosophy was used to understand a social phenomenon investigation in its natural environment (Saunders & Lewis, 2018) described as understanding how people interact and make sense of the world (Darabi, 2016). The objective of this research was to gain insight on the experiences of managers and leaders of OEMs entering emerging markets in the Middle East North Africa region. Interpretivism was therefore adopted as the predominant research philosophy for this exploratory study.

b. Approach to Theory Development

In this paper the inductive analysis principal and theory was adopted. Darabi (2016), discussed that an inductive approach was most applicable to qualitative exploratory case study research, given that this approach involved developing theory based on an interpretive approach, the observation and understanding of participants' personal lived experiences rather than testing a perceived hypothesis. Bougie & Sekaran (2020), supported this view and further highlighted that the inductive analysis would be used to arrive at general conclusions through the use of patterns, themes and models.

c. Methodological Choice

Due to the time constraints of this research the mono method research approach was selected for this study.

d. Purpose of Research Design

Subudhi & Mishra (2019), stated that qualitative research is applied as an appropriate methodology to capture experiences of individuals, understand surroundings and interpret the world. Exploratory research enhances qualitative research, as it aims to investigate, explore, understand meaning of how individuals interact with the world (Casula et al., 2020). Exploratory research is applied to relatively new subject areas, generates insights, and formulates a hypothesis that can be recommended for future researchers to test (Nilsen et al., 2020). Due to these findings in academic literature, it was evident that exploratory qualitative research was most suited approach to uncover greater insights into the factors influencing the development of strong relationships between MNEs and their independent distributors in emerging markets, particularly in territories that today are not well understood. Therefore, the qualitative exploratory research was the approach for this study.

e. Research Strategy of Enquiry

Gray (2018) defined phenomenology as the study of how an event or phenomenon was experienced by the research participants. Phenomenological research aims to explain and describe how participants experience an event within a context on the basis of reflective experience (Creswell & Poth, 2018). In this research, phenomenology was the research approach adopted to capture the management and leaders' lived experiences and knowledge. The context was the internationalisation of Western OEMs into the MENA region and the lived experiences of managers and leaders in OEMs as they entered the MENA region, and similarly, the lived experiences of the local companies in MENA regions working with Western OEMs. In this study, phenomenology was particularly relevant due to its characteristic emphasis on creativity and judgement in the face of uncertain objectives and radical indeterminacy (Solaimani et al., 2022).

f. Time Horizon

This research spanned a period of six months and therefore cross-sectional time series were adopted (Bougie & Sekaran, 2020). The interviews were scheduled for a particular time.

g. Techniques and Procedures

Semi-structured interviews were widely utilised, validated and pre-tested as they are the recommended method of collecting qualitative data by academics and specialists in the area of operations management and supply chain (Zatta et al., 2019). Qualitative exploratory research is designed to thoroughly examine a particular focus area. As a result, this study employed specified, targeted and focused semi-structured questions to obtain primary data, allowing participants to respond in a conversational manner that aligned with their expertise and role (Hamilton & Finley, 2020).

4.3 Proposed Research Methodology and Design Considerations

a. Target Population

The target population is defined as the “totality of people from which the sample is drawn” (Gray, 2018). There were two target populations in this study. The first target population were the managers and leaders from Western companies that have entered into MENA region as part of their internationalisation strategies and the second target population were local managers and leaders from local companies in the MENA region that were working with Western multinationals as non-equity independent distributors and resellers. The target population was 8 MNE professionals with a minimum of five years of experience and knowledge managing channels in emerging markets and five independent distributors local reseller companies that had a minimum of five years’ experience with the industry and working with Western OEMS.

b. Unit of Analysis

Saunders & Lewis (2018) define the unit of analysis as the sub-group of the chosen population. The unit of analysis in this study was to obtain the personal lived experiences and extensive knowledge of managers and leaders in MNEs responsible for managing independent channels in emerging markets, particularly in MENA nations. The study further obtained personal lived experiences from the channel partners and independent distributors in these territories. Therefore, the individual was the unit of analysis used.

c. Sampling Method and Size

Creswell and Poth (2018) suggested that for phenomenological research the optimal sample size should be between 5-25 participants. The sample sought and obtained for

this research was eight participants representing various MNEs and five participants representing the various local companies in the MENA region.

The selection of sampling technique is critical as it is a direct contributing factor to understanding the theoretical framework (Johnson et al., 2020). Campbell et al., (2020) defined purposive sampling as deliberately choosing participants in the study who were believed to have knowledge and experience that was most relevant to the research topic and who were best qualified to answer the research question. This approach has been widely used in qualitative research that aimed to understand, interpret, and observe the knowledge and experiences of individuals within a particular context (Johnson et al., 2020) and addressed each aspect of scientific rigour and epistemological research assumption (Campbell et al., 2020)

As a result, given that the purpose of this study was to understand specific experiences, perspectives, and insights to answer the research question, the purposive, non-probability sampling method with referral technique was applied. Participants were intentionally and deliberately selected, with emphasis on their fulfilment of the criteria and their relevance, significance and value to answering the research question.

d. Measurement Instrument

The study employed the semi-structured interviews and pre-existing documents, such as archival records and observations, as a means of gathering information and insights for this research. Saunders & Lewis (2018) strongly recommended utilising observations as part semi-structured interviews to identify patterns and make observations which could easily be used to develop theory. The interview began with a brief introduction to this research, contact details of supervisor and researcher and reaffirmation that respondent's participation was voluntary and that their responses would be treated with complete confidentiality. An interview guide was utilised to help structure the interview.

e. Data Collection

Research interviews are at the centre of numerous qualitative studies Ravitch & Carl (2021) and have been referred to as the "golden standard of qualitative research" and considered the most common approach to data collection (Barbour, 2013). The primary data for this paper was collected through one-on-one, semi-structured in-depth

interviews using open-ended questions. The interviews were completed through online video conferencing, using recording tools. This approach was most valuable particularly in situations where that participants were geographically dispersed. Additionally, a third-party independent transcriber was employed to transcribe the recordings which minimized any potential bias, driving reliability and credibility of the data (Saunders & Lewis, 2018). Secondary data was gathered through press releases, academic journals, company websites and reports and document reviews and posts.

f. Analysis Approach

Exploring the subject matter of this study required exploration into new perspectives, patterns, and insights. Due to the emergent data expected from this research, an inductive approach was utilised. Inductive methods utilise emergent data to support coding choices (Saldaña, 2016). Collecting data and coding with the inductive approach allowed for the emergence of conclusions and theories, fostering deeper understanding. The inductive approach enhanced the flexibility of this study and ensured relevance.

ATLAS.ti statistical programme was used to organise and code raw qualitative data into themes, concepts and models (Friese, 2019). The data collected was analysed utilising the PESI Model for empirical interpretation of data; prepare, explore, specify, and integrate (Rashid et al., 2019).

g. Quality Control

Academics use scientific rigour, as a quality control measure to heighten credibility, trustworthiness and minimise bias inherent in qualitative methodology (Johnson et al., 2020). Trustworthiness is a critical criterion for qualitative research to ensure reliability of the data (Lincoln & Guba, 1985). Four key standards for establishing trustworthiness of results were applied to this research: credibility, through provision of supporting evidence for what had been studied; transferability, through provision of transparent contextual information; dependability through replicable processes which provided sufficient detail; and conformability ensured results were reflective of information gathered. (Lincoln & Guba, 1985).

Yin (2018) defined triangulation in the field of research as the use of various data sources to explore the same phenomenon from a multitude of angles. Moser and

Korstjens (2018) strengthened the use of triangulation in qualitative research, critically noting that triangulation avoided bias resulting from monomethod. Myers et al. (2016) further supported this argument by noting that triangulation was an ideal approach to using both interviews and observations to explore the same phenomenon. In line with this view a multimethod approach was used to triangulate the data from interviews with secondary data. As such, scientific rigour was applied as the quality control to this research incorporating the trustworthiness criterion reinforced by triangulation of data.

4.4 Limitations of the Method

There were advantages to the methodology, however, certain limitations were present, namely the sample size, non-probability sampling, the structure of online-based interviews, and the inductive approach itself. The sample size of 13 respondents could have restricted the generalisability of the findings and reflected a relatively narrow point of experience in the region, however, this may have been mitigated by the respondents' average experience in the region (Creswell & Creswell, 2023). Non-probability sampling speaks to the researcher's limited network and accessibility of respondents which may have caused selection bias, however, the researcher took measures to obtain respondents from a variety of fields and regions. Online-based interviews and the cross-sectional nature of the research may have limited overall findings. In person, and longitudinal research has been recommended for future research. Finally, the inductive approach, while suitable for exploratory emergent data may have led to subjectivity in the interpretation of the findings, however, subjectivity has been mitigated through transparency in data collection, findings, analysis, and results.

4.5 Ethical Considerations

In any study that involves data collection or contact with human subjects, it is imperative to address ethical considerations and uphold the highest ethical principles of safeguarding the privacy and anonymity of all participants (Gray, 2018). In this study the anonymity and confidentiality of all respondents was preserved by refraining from requesting individual's names and the names of the companies involved. Gray (2018) further stated that the key to ethical consideration was not only obtaining consent but rather informed consent. It was paramount that the participants were kept informed of the aims of the research, who had undertaken it, who was asked to participate, time

required and ensuring voluntary participation (Gray, 2018). For the purposes of this research the following ethical guidelines were followed;

Table 2

| | |
|--|---|
| Ethical Clearance | The research was approved by the GIBS Ethics Committee and clearance was provided to conduct the research prior to data collection. |
| Privacy, Confidentiality & Autonomy | Participants were afforded the choice to participate and option and freedom to withdraw from the research at any point. Individual and company names were not requested in order to protect the identity anonymity of all participants. |
| Data Protection | Participants' unique names, attributes and characteristics were not published in the final report. |
| Informed Consent | Informed consent form was received. |

4.6 Conclusion: Summary of Methodology & Design

Table 3

| | |
|--------------------------------|--|
| Philosophy | Interpretivism |
| Approach to Theory Development | Inductive (coding) |
| Methodological Choice | Mono method |
| Purpose of Research Design | Qualitative, Exploratory Research |
| Research Strategy of Enquiry | Phenomenological in nature |
| Time Horizon | Cross-sectional |
| Techniques and Procedures | Semi-structured interviewer completed interviews |
| Target Population | The target population was eight professionals within MNEs with a minimum of five years of experience and |

| | |
|---------------------------------------|--|
| | knowledge managing channels in emerging markets and eight professionals from three independent distributors. |
| Unit of Analysis | Individual |
| Sampling Method & Size | Purposive, non-probability sampling, referral technique was applied. |
| Measurement Instrument | Interview guide, Semi-structured interviews |
| Data Collection | Semi-structured interviews with open-ended questions. |
| Data Analysis Approach | Atlas TI Software, Thematic Analysis |
| Quality Controls | Scientific Rigour / Trustworthiness/ Triangulation of Data |
| Ethical Considerations | Approved Ethical Clearance |
| Privacy, Confidentiality and Autonomy | Identifiers were used to protect participants' confidentiality |

Chapter 5

Findings and Analysis

5.1. Introduction

The central themes represent the core main areas of qualitative research and symbolise the distinction, process, closeness, improved understanding, and the foundation of our contribution (Aspers & Corte, 2019). This chapter presents six identified central themes and sub-themes that have emerged from the thematic qualitative analysis conducted to answer the research questions and used to form the structure and the presentation of results. The research utilised coding techniques and continuous comparison to identify the core themes and presented interpretive narratives interspersed with verbatim quotations of the participants to report data (Creswell & Poth, 2018).

5.2 Demographics and Characteristics of Participants

This study exclusively focused on conducting interviews with two sets of participants. The first set of participants represent the MENA region and are the local companies who do not hold equity with OEM / MNEs' foreign partners but are the local independent partners that represent the voices of the MENA region. The second set of participants examined represent the Western OEM / MNEs entering the MENA region through non-equity strategy models.

The first set of participants are the local companies in the MENA region that represent the local business norms. The second set of participants are stakeholders representing the Western OEM / MNEs that are responsible for the channel business, have experience entering the MENA region and can share their experiences. The second group of stakeholders are typically in charge of multiple regions supporting Africa and Middle East and have extensive experience working with local companies in the MENA region. The data will be examined, evaluated and analysed and compared for commonalities and disparities.

Interviews are referenced as the gold standard in qualitative research and most effective and common form of data gathering (Barbour, 2013). Thirteen interviews were conducted for an estimated 45 minutes each between August and September 2023. All interviews were conducted in English featuring voice recording and transcript

capabilities on the online Zoom platform The recording and transcripts were utilised to extract main key findings, themes and sub-themes without any identifiers. All participants signed the GIBS consent form and were presented with the interview guide before the interview process to allow them to prepare and proceed with the interviews.

In addressing the first Research Question (RQ1) which probes the influence of psychological contracts on the relationships between MNEs and independent distributors the below outlines the key major themes and sub-themes that answer this question.

Participants' Sample Characteristics are summarised in Table 4 below:

Table 4

| | Participant Number | Organisation | Participant Location | Participant Position | Headquarters |
|---|---------------------------|---------------------|-----------------------------|---|---------------------|
| Local Partners non-equity partnerships | Participant 1 | Organisation A | Egypt | Business Development and Decision Support Manager | Egypt |
| | Participant 2 | Organisation B | Qatar | Aftermarket Business Leader | Qatar |
| | Participant 3 | Organisation C | Dubai | Head of Power Generation | Dubai |
| | Participant 4 | Organisation D | Dubai | Marketing & Trade Cycle | Dubai |
| | Participant 5 | Organisation E | Dubai | Sales & Marketing Manager | Dubai |
| Multinational Enterprises (OEM) non-equity internationalisation strategies | Participant 6 | Organisation F | Dubai | Service Manager | Japan |
| | Participant 7 | Organisation G | South Africa | Engine Business Leader | United States |
| | Participant 8 | Organisation H | South Africa | Head of Corporate Finance and Development | United States |
| | Participant 9 | Organisation G | Dubai | Key Accounts Leader | United States |

| | | | | | |
|--|----------------|----------------|----------------|---|----------------|
| | Participant 10 | Organisation G | Dubai | HR: Functions Projects and Chief of Staff | United States |
| | Participant 11 | Organisation J | United Kingdom | Senior Economist | United Kingdom |
| | Participant 12 | Organisation H | Egypt | Channel Management Director | United States |
| | Participant 13 | Organisation K | Dubai | Global Dealer Standards Projects Manager | United States |

5.3 Addressing Research Question 1

5.3.1. Major Central Themes: Local Partners of Non-equity Networks: Perceptions of interactions with Western OEM's MNEs

There are five central and major themes that emerged during the thematic analysis with local partners of non-equity networks with Western OEMs. The table below contains a summary of the key themes and sub-themes that have emerged from the data collected.

Table 5

| Themes | Theme | Sub-Theme |
|----------------|-------------------------|--|
| Theme 1 | Trust | Honesty and Transparency |
| | | Word of Mouth |
| Theme 2 | Communication | Verbal Communication, Listen to customer |
| | | Non-Verbal Communication, Gestures |
| Theme 3 | Respect | Status |
| | | Collaboration |
| Theme 4 | Cultural Considerations | Cultural Sensitivities |
| | | Cultural Expectations |
| | | Religious Sensitivities |

| | |
|--|--|
| Theme 5 Emotional and Personal Connection | Emotional Decision-Making |
| | Emotional and Personal Relationships and Networks |
| | Compassion |

a. Theme 1: Trust

All local participants interviewed articulated that trust is paramount to building strong long-term relationships and plays a significant role in the building of the psychological contract between principals and their agents. In the MENA region, trust is the key ingredient to business dealings and economic transactions intertwined in business partnerships, negotiations, and contracts that are deeply woven into the fabric of society, families, and communities.

"...I see that trust is very important key point and to build that trust it don't come in a day, two or three or in a contract..." (Participant 2).

"It is exactly because they trust the brand." (Participant 5).

"Trust be honest. Be honest." (Participant 1).

"They like to do business based on relationships and trust as well." (Participant 4).

"...in a business, a smile without showing teeth, meaning he's a fake person." (Participant 1).

"...you have to be honest.... even a very small lie about your product... they will never trust you again, even if you do everything right after. To build that trust again, you will not. You will lose this customer forever." (Participant 1).

Similarly to Participant 1 in a different interview, participants conveyed analogous sentiments:

"...with Arabic people... I feel that it takes much time to build a level of trust. And it takes too much to build a level of trust. And it takes no time to break that trust... Despite what you do for him over years... it will be much harder to build it back again..." (Participant 2).

“...now they stick to the brand and they're loyal to the brand. So, it builds more of, I would say. In some ways, the trust, but also a loyalty between the two parties.” (Participant 4).

i. Sub-Theme: Honesty and Transparency

The speakers describe and indicate that transparent conversation is the key ingredient to building trust. Participant 3 referenced the expression of *“there should not be any hidden areas”* and remarked *“Once there is open communication the trust will automatically be built”*. The words used were *“The distributor should not be feeling that he should be hiding”*. These statements capture the essence of what is suggested by transparency.

“...I feel transparency is very, very important. Transparency means that you share information that is allowable for sure and you share it in a proper way ... That, of course, will impact the level of trust. ” (Participant 2).

“...I think the most important one is transparency...” (Participant 1).

ii. Sub-Theme: Word of Mouth

While few of the local partners mentioned word of mouth specifically, the implications for businesses were dire if word of mouth did not work in their favour.

“Word of mouth... can destroy your business and your entire business. By word of mouth.” (Participant 1).

“...it's because the word spread(s)...” (Participant 3)

b. Theme 2: Communication

The importance of communication and respectful communication has been highlighted and nuanced by all participants. Participants reference verbal and others non-verbal communication. Many participants expressed the view that communication is the tool to building relationships and understanding culture. Participant 1 stated that *“It's all about communication and trust”*.

“Communication, meaning to learn how to communicate with this norm or with this culture of people.” (Participant 1).

“So basically being open for communication is extremely good factor...” Participant 3).

The speakers emphasise the importance, careful consideration and mindfulness of how we communicate and allude to the complexities and nuances of verbal and non-verbal communication.

i. Sub-Theme: Verbal Communication

Verbal communication is nuanced in terms of the delivery of the voice. Participants highlight that if the speaker’s tone of voice is too high, they may be perceived negatively in the region. Participant 5 highlights that particularly when talking to a customer, elements such as the tone of voice and making factual, albeit superior remarks could be interpreted as arrogant and overshadowing the customer and not be suitable to listener sensibilities.

“.....when you are in a meeting with a customer and then you start talking for example about your own company, how big they are and then you feel like I mean that's trying to downsize the customer for example. Maybe it's a fact. Maybe the customer, they will take it actually negatively and they will take it personal. Technically, it's a fact. This is our company and then we talk, we talk about our company. We are proud of our company. But how we talk about company, we can talk about the company in a way that it's just representing the company and we can talk it, talk about it in a way that we are way bigger than you with. I mean we are better company...it all depends on how the way you talk the way you. You know that phrase your words, the way you sit, and I think face and you know body language also play a role here...” (Participant 5).

Participant 4 expands on verbal cues and presents a commonly used term “*lin Sha’Allah*” or “*Inshallah*” as a polite way of stating that something will most likely not take place.

“...So another thing that's let's say, a mix of cultural and religious importance is the word “In Sha’Allah” it's more of a polite way for us to understand that there's a 90% chance we won't be working with this client at all...” (Participant 4).

A theme which came across with local partners was the importance of Western companies needing to listen to their local partners when entering the territories.

“They must have the two-way communication. Because this distributor knowing the regional nature of the market...” (Participant 1).

“They need to listen. They need. They need to just open up to listen because they are the people who wants to do business inside [the country].” (Participant 3)

Participant 5 pointed out that the difference in language itself does not affect the potential of communication, but rather the way a person speaks.

...if we talk about communication... 99% of the people here... most of them they speak English. So, the communication. For the language itself. It's not. I mean that's an issue, it's not a barrier, but the way you speak... understanding those cultural differences or the way you talk communicate.” (Participant 5).

ii. Sub-Theme: Non-Verbal Communication

Non-verbal communication, gestures, have been highlighted as highly impactful in Arabic culture. Non-verbal cues such as tone of voice, a smile, gestures, facial expressions and body movements can be interpreted in various forms which is an important step that significantly impacts success in business with Participant 2 stating that the tone of voice matters and that loud can signal aggression. Similarly Participant 4 echoed the same sentiments and stated that people do not like people talking in a high tone of voice, stating that a company should be cautious on who they send to these regions to conduct business.

“...You know people don't like talking high tone of voice. We need to pick the people that you're going to send into the market based on that as well...” (Participant 4).

“...Smiling, this is very important... your body language and your tone... cannot be very aggressive...” (Participant 2).

Participant 3 echoed similar views and stated:

“...Also smiling is very important in the Arabic word because they like to smile a lot so don't like the rigid or natural people...” (Participant 3).

Body language such as crossing one's legs or presenting the sole of a shoe can imply disrespect and arrogance.

“... Some of the gesture or the movements can be considered arrogant... if you are meeting a customer high level customer and you sit and then you, I mean you know you cross your leg or your shoes are a bit up, it's kind of I mean it's considered not respectful... in some countries or culture it seems like arrogant. I mean that the way that you are talking can give a bad indication...” (Participant 5).

“...mannerisms that people see in a meeting could really differentiate between a deal going positively to a deal not working out at all...” (Participant 4).

Some respondents have mentioned that physical expression carries substantial weight on how the message is received.

“...if you show teeth, it's meaning you are true...” (Participant 1).

“...It could be something as simple as playing with a pen or touching your mobile phone during someone's presentation or when, let's say the Senior Vice President or the CEO of a company comes in for a meeting, but the opposite doesn't stand up to shake his hand...” (Participant 4).

“...Smiling, this is very important, like you need to meet people with a smile. You need to pay special attention to your body language and your tone. It cannot be very aggressive because even if you are talking on a serious topic. But if your body language is aggressive and your tone is high, they might feel that this is inappropriate...” (Participant 2).

c. Theme 3: Respect

Respect and politeness in personal interaction is markedly emphasised with the great expectation society places on all people and acts as the foundational basis upon which relationships are constructed and sustained. All participants indicated that social etiquette such as respect or being treated with respect plays a pivotal role in shaping close interpersonal relationships.

“...So people here as an example, respect is very, very important... treated with respect...” (Participant 2).

“...It seemed important for it to be respected and recognised....” (Participant 3).

“...people in GCC expect a certain level of. Let's say respect.” (Participant 4)

Participant 4 continues, noting that respect is presented by being considerate and respecting the norms and values of the people. Taking a vegetarian customer to a steak house or going for a business meeting to a restaurant where they sell alcohol is considered disrespectful because of the culture.

“...taking a vegetarian to a steakhouse for a meeting. You know, you're kind of then taking the person to a place which is against their beliefs...that emotional response, you're not respecting me. You're taking me somewhere that, you know, I'm uncomfortable with... Especially when you're working with some of the countries in the GCC, such as Saudi, Qatar, Kuwait, which are still quite strict with the way things work, it makes a big difference...” (Participant 4).

Participant 4 continues and shares a different example.

“...in a business meeting which is outside the office and you take them to a place that serves alcohol, they find it disrespectful because for them, alcohol is against the religion.... would not appreciate, like might not say anything on the meeting, but afterwards, of course, it's the thing that goes in mind, that or we went for a business meeting, they had alcohol while we were sitting on the same table with.... a bit disrespectful...” (Participant 4).

i. Sub-Theme: Status

The conversation largely focused on the role of status, honour, reputation as profoundly important in the MENA region and therefore the concept of status and reputation is distinctly accentuated in the subsequent analysis.

“...The reputation of the people that they work with, this is very, very important... People care a lot for reputation, so they are going to take decisions to the extent that they might take decisions even at the cost of losing some of their profits just to keep and protect the reputation...” (Participant 2).

“...The OEM... should understand that they cannot operate in that particular region... Without the help of the distributor. So that's why they need the distributor...” (Participant 3).

“...there is still that old generation which does exist over here and that believes that they would want to meet people either of the same hierarchy or status, they don't want to

interact with people or they don't need to have a meeting they feel with anyone that's lower than that. So that does play a factor... and unfortunately, the GCC the way to judge your status or the way to judge what level you represent is completely on very materialistic things from something at the car to the clothes you wear to the watch you wear. You know it's very simple sometimes for people when they go for a business deal. When you see that oh it's driving let's say with a mid- range car wearing a decent suit. Maybe the potential is really not that great in this deal.” (Participant 4).

Participant 4 indicated that sending a customer on a trip without arranging the finest limousine or a luxurious hotel could be interpreted as not respecting or appreciating him, this leading to the customer making fewer purchases.

“He expects the price of the hotel or at least German manufacturer’s limousine, you know...after which then he feels that, oh, you don’t appreciate him enough...you purchase goods worth half a million instead, you know or if let's say you're trying to close a new order with him to shift them from 1,000,000 to 1.5 million, he's like, no. I don't feel appreciated...” (Participant 4).

ii. Sub-Theme: Collaboration

The concept of collaboration, the need for Western MNEs to make a continual effort to work along-side their local partners was expounded by Participants.

“...In Middle East, usually the expectations are more... it's a demanding market The cultural view in the regions... expectations as well from the customers and the end users are more...” (Participant 2).

“...We both share the responsibility also when the business is not performing very well, what we can do together, it is not what can I do, it is what we do together...” (Participant 2).

“... there should be regular discussions ... regular visits presence...attention to be given... so, you're building trust between the both people. So it becomes that you don't trust a company you trust the people more...” (Participant 2).

“Western companies should not be... forcing their policies to distributor and distributor should not be also forcing their behavior to the Western companies. So basically should be discussed during the initial stage where both of them they'll sit and agree understand

the challenges where both are setting up and basically reach an agreement.” (Participant 3).

“I’ve seen that if you, let’s say when you’re working with someone and you say that ohh, by the way, this is how it is and this is how it should be done. And this is how things will be from now on. They seem to be a bit more apprehensive and they take it more negatively. What really works, let’s say, is when you kind of make it as a suggestion” (Participant 04).

d. Theme 4: Cultural Considerations

Local participants point out that when principals make an effort to adapt to and engage with the local culture, agents are more invested.

“...when you start really adapting to the culture in the region and when you start in the understanding what works and doesn’t work and these small attributes that they really appreciate, they start doing the work for you a lot better.” (Participant 4).

“If we talk about like, for example, Saudis to Saudis, it will take like few minutes talking about and welcoming each other. It’s not like just we are coming, OK, entering to the subject and that’s we finished the meeting and we leave. Yeah. I mean it doesn’t work. So, we have to break the ice even if you don’t know each other and breaking the ice it takes some time of the part of the meeting.” (Participant 3)

Respondents amplified the familial construct as profoundly important in the MENA region.

“...It’s kind of courtesy only... it’s cultural thing, it makes them both more comfortable to talk...” (Participant 5).

“...family is a whole thing in this country. So, if you ask about me and about my family, you are care about me. So, you are care about me, you would also care about my money and my business. So, I can buy from you...” (Participant 1).

i. Sub-Theme: Cultural Sensitivities

All participants have articulated in one form or another that culture and religion are both significant factors inextricably intertwined with the very structure of the society. Respecting cultural sensitivity is central. The participants have identified numerous

situations where culture may have not been explicitly mentioned but implied in beliefs, behaviours, norms and attitudes. Participants have identified many cultural beliefs that impact trust. In order to build strong relationships, it is important to conform to certain cultural standards and expectations such as subtle gestures. *“...Western companies should not be... forcing their policies...” (Participant 3)*

“In the meetings they will offer tea or coffee... is a culture in Gulf countries that if someone visited ...Because in the in the past, the people were traveling in the desert between one location and to another location, and there was no transportation so anyone that is visiting came along distance to come, so he need rest we need to get food. We need to get a drink and so on... Still keep this culture up to today...” (Participant 2).

“In the Middle East, this is if you don't give something to the clients... if you don't really... Show the client your generosity by taking him in a good place to discuss... that could also be as an insult to the client itself.” (Participant 3).

“There are few only culture things you have to be careful not to talk about.” (Participant 4).

ii. Sub-Theme: Cultural Expectations

Participants highlighted the importance of certain business cultures in the region, stating that local partners expect to be treated with a certain level of appreciation, as well as the expectation that business relationships include a level of intimacy and gift-giving.

“I've had cases where they've complained back saying that they were really unhappy with the event because let's say the car was not up to their standards or. Sorry, the hotel stay was not up to the standard and you know they don't. They don't feel appreciated because of that” (Participant 4).

“...generally, people like to do chitchat with each other, building personal relationship in the business. They like to have a side talk. They like to build that trust with each other and know each other, know their family. You know the family member, know how to deal, know the personality more than the business and start. They can start talking about business after. Knowing each other well.” (Participant 1)

“souvenirs, invitations... casual dinner... It's all about normal for this country... they're looking for a warm hospitality in everything every minute. You have to show care for them. You have to give him a present... Give them an free invitations or even any free item of your product. The feeling that you put him in a special place.” (Participant 1).

“...some companies they think that if you give a client... a dinner above 40 or \$50 or a small gift above 40 or \$50, this is something considered to be as a breach of conduct” (Participant 3).

iii. Sub-Theme: Religious Sensitivities

Some local partners explained the impact religion has on culture, and some of the ways in which Western representatives need to be sensitive to the local religion.

“We don't talk about religion in the wrong way.” (Participant 3).

“The religion has. Uh, let's say has an impact on the way the culture has been developed.” (Participant 4).

“...religion, politics, those things. It's not preferred to talk about... That's the culture. That's the way people that believe dress or whatever... Either you should understand them before you visit those countries, or just avoid talking about them.” (Participant 5).

“Is the first thing your parents teach you is your religion, is your belief. It's your culture. So. You know, having spent 25 years learning that something is the way it's supposed to be, and then the person you're supposed to work with takes you to a restaurant which is completely opposite your beliefs or takes you to a meeting which you feel uncomfortable and emotionally. It does at the end of the day, play in your mind. You know, the first thing that when you think of that meeting is how you felt uncomfortable back then... So, you try to do as minimal work you will have to do with those people. So you're not put into an uncomfortable situation again.” (Participant 4).

e. Theme 5: Emotional and Personal Connection

Relationships appear to be largely built on emotional connection and feelings which is underscored as being critical to building trust with Participant 2 directly stating that:

“...A relationship between a principal and a distributor, or a dealer in this country will be mainly driven by how they feel about them emotionally...this actually plays very big role in the success of the relationship between two partners here...” (Participant 2)

“Being kind. Like if some person cancels the meeting for once or twice or says they don't be aggressive with him, you don't know what he. Feels be kind. I know you are very, very busy person and I know I have a lot of things, you know, and thank you for your time, for meeting me...” (Participant 1).

“...people in Middle East are more into emotional and the relationships. Actually, these play a very big role into that access of any agreement or any business...” (Participant 2)

“...It could be even something as simple as having a dinner with the team once every three months and inviting them to be a part of that dinner...” (Participant 4).

“...I value a personal relationship, meeting people face to face, I value all these in my point of view...” (Participant 2)

“...in Arab region, generally people like to do chitchat with each other, building personal relationship in the business. They like to have a side talk. They like to build that trust with each other and know each other, know their family...” (Participant 1).

“... in Arab countries, they're looking for a warm hospitality in everything every minute. You have to show care for your customer. You have to give him a present or an invitation or even any free item of your product...the feeling that you put him in a special place...” (Participant 1)

“...people in especially the Gulf countries want to do business on a personal level, not just on a professional level... they want the human touch to it for sure...” (Participant 4)

“...getting to know someone on a deeper level on a more emotional level, so that trust is getting built...” (Participant 5)

“...usually Arabs are more driven by emotions than systems, right, they're driven by understanding, they like to deal with people they don't like to deal with systems. They are more into people orientation than they do business because of relationships they do business because of human touch, which is very, very important for them....” (Participant 3).

“...sending a box of sweets based on a national day or based on a public holiday to show that it's an important day and I thought of you I think that would be one of the key aspects for sure...” (Participant 4).

i. Sub-Theme: Emotional Decision-Making

Respondents indicated that emotions are not only central to building strong relationships but are fundamentally significant in the decision-making process.

“...in the Middle East are more into emotional aspects and the relationship actually play very big role into that access of any agreement or any business...” (Participant 2).

“The Arabic distributor, he doesn't want to feel that you're trying to dominate him and force him to do something...forcing stuff really doesn't really work with the Arab word, because sometimes they become more stubborn... and instead of letting it go, they will do exactly the opposite. Arabs can take it very emotionally” (Participant 3)

“The emotion is one factor of making a decision and it depends... in the Arab world, let's say it's a little bit higher...” (Participant 3).

“...they are a bit emotional. And I mean the decision of the customer might be affected if they are not happy emotionally with the supplier....” (Participant 5).

ii. Sub-Theme: Emotional and Personal Relationships and Networks

Local participants expressed the view that emotional and personal connections are vital factors in business partnerships.

“...in Europe or US they are looking about business only. People here in this region looking for personal contact and links and how they know each other and how they're feeling.” (Participant 1).

“Because people... are more into emotional and the relationship actually play very big role into that access of any agreement or any business. So, if the relationship is not [there]. No one can succeed in any industry not only to the equipments or the seed industry, no, in in any industry the personal relationship play a very big role actually here to make things go forward so... it has big weight than other places in the world in terms of business relationship.” (Participant 2).

“...For example, this guy has worked with us, for example, 18 or 19 years, even his performance went a little bit down, but he he's still one of us, he's still we respect his time. He is one of our family if you want to. So, we're really not ready to let him to let him go, even if it's not 100% performing, you might hire another guy, support him, we might distribute, distribute his workload a little bit for more efficiency. But since he already worked with us 20, 21 years and already given, for example the big amount of support, you consider him as part of the family. In the Western world, it might be a little bit different where it's a yearly performance, it's you're dealing with might be some type of the system you're not performing ok then automatically it's question mark even after years of service...” (Participant 3).

“... actually, a relationship between a principal and A and a distributor, or a dealer in this country will be mainly driven by how they feel them emotionally, how they feel their support. How they feel, their response, how honest they are, how genuine they are, how sincere they are to their work. This all actually played very big role in the success of the relationship between two partners here.” (Participant 2).

“They are more into people orientation than they do business because of relationships they do business because of human touch, which is very, very important for them.” (Participant 3).

“It feels that human touch is extremely important, which we don't really see it or witness it in the Western region. Western region is more about system orientation. It's more about policies and...I feel that the human touch sometimes is not available. Or it's a little bit... it's not available.” (Participant 3).

“...especially the Gulf countries want to do business on a personal level, not just on a professional level. Let's say it doesn't end in a meeting room they want the human touch to it for sure.” (Participant 4).

iii. Sub-Theme: Compassion

Some local participants explained that compassion is more important than performance in the region.

“Being kind. Like if some person cancels the meeting for once or twice... don't be aggressive with him, you don't know what he feels be kind. I know you are very, very

busy person and I know I have a lot of things, you know, and thank you for your time, for meeting me... Some people doing that because they won't like that they are very important and they cancel and you try to contact them again and you cancel, you know, this personality. He like to feel a very important person, so be kind with him.” (Participant 1).

“...For example, this guy has worked with us, for example, 18 or 19 years, even his performance went a little bit down, but he he's still one of us, he's still we respect his time. He is one of our family if you want to. So, we're really not ready to let him to let him go, even if it's not 100% performing, you might hire another guy, support him, we might distribute, distribute his workload a little bit for more efficiency. But since he already worked with us 20, 21 years and already given, for example the big amount of support, you consider him as part of the family. In the Western world, it might be a little bit different where it's a yearly performance, it's you're dealing with might be some type of the system you're not performing ok then automatically it's question mark even after years of service...” (Participant 3).

5.3.2. Major Central Themes: Western MNE of Non-equity Networks: Perceptions of interactions with Local Partners in MENA region.

There are five central and major themes that emerged during the thematic analysis with Western multinationals of non-equity partnerships with foreign partners in MENA region. The table below represents these themes and corelated subthemes:

Table 6

| Themes | Theme | Sub-Theme |
|----------------|-------------------------|-------------------------------------|
| Theme 1 | Trust | Personal Relationships and Networks |
| | | Word of Mouth |
| Theme 2 | Communication | Verbal Communication |
| | | Non-verbal communication |
| Theme 3 | Respect | Status |
| | | Collaboration |
| | Cultural Considerations | Cultural Sensitivities |

| | | |
|----------------|---------------------|-------------------------|
| Theme 4 | | Cultural Expectations |
| | | Religious Sensitivities |
| Theme 5 | Political Structure | Monarchy |
| | | Family-Owned Businesses |
| | | Political Implications |

a. Theme 1: Trust

All participants indicated that the concept of trust is the most important aspect in the MENA region with Participant 6 stating that “...if I don’t have a trust... the business will never come... it’s completely based on trust “. Participant 11 introduces and describes the concept of “Wasta” in the MENA region which represents the importance of networks which are heavily reliant on trustworthiness.

“[if] he doesn’t have trust [you] the business will never come.” (Participant 6).

“What’s a little bit more important... is the relationship, the trust...” (Participant 10).

“...You go to the Middle East, the trust between people is intense because they don’t have those formal institutions to rely on... relationships become super important and that’s the gateway to get into the market. Of course, it it’s through the relationships in many of these countries. So you’re not necessarily looking at the transactions. Partners are not so interested in you know price and delivery times, that’s of lesser importance it’s hugely important in the West, but of lesser importance in the Middle East. What’s important to them is ...Are you trustworthy?” (Participant 11).

The Western MNE’s presented a more logical interpretation of trust stating that “Now the trust definitely there is a aspect of time being consistent and delivering on our promises in every transaction. In takes time to build trust” (Participant 9).

“In the Middle East, they have this concept called ‘wasta’ that you probably know about. Yeah. And. And this is simply you’re into a very, very dense network of people. And if you and there’s huge entry barriers to get into that network. Because of course they have to trust you, and if they’re going to recommend you to their cousin, you have to be trustworthy.” (Participant 11).

i. Sub-Theme: Personal Relationships and Networks

Many participants expressed the view that personal relationships is an important construct to building trust with Participant 8 stating “...*We have to entertain this channel, partners get to know them... play sports with them outside, outside of the office to build that relationship, to build that trust... specifically in the Middle East...*” and then later strengthened by Participant 11 “...*length of relationship is a big factor. So that builds up trust. The more people know each other...*”

“For us, customer relationship is the most crucial and most important vital part in Middle East...” (Participant 6).

“...It is the trust... you go with them for jet skiing and trust is developed and psychological safety is developed not in the boardroom but outside of the boardroom...” (Participant 8).

“...the business culture is very different for the developed country you know like the US and Europe, the process seems more important... but in some other countries like Middle East, you know often that we conduct business based on the personal relationship ...” (Participant 7).

“Some people like having shisha or a drink or something so engaging in such social interaction can help in building that relation.” (Participant 9).

You cannot do business with them if you are not engaged personally with them.” (Participant 8).

Some participants highlighted the tight networks in the region and the business relationship applications and implications of such networks.

“...you will lose that customer and you will lose the entire group. As I was saying, it's a group network... you can't afford to lose even one person's relationship...” (Participant 6).

“...there is a tight network so example if a particular product in the market is leaking or something gets broken very quickly these people have network so fast that they say, oh, I know this thing has failed. Sorry I don't want to touch it. I don't want to burn my fingers or something like that. So, they are very sensitive. So, you have to be able to good

explanation why it has failed. How you will solve it. So how you can convince him? And convince that group before they tarnish your image. If you are like very cold, you say, OK, you bought it and now it's your bad luck. Don't buy product next time like you know in Middle East. It doesn't work like one time sale. It's like a continuous sale. So if you win one, it's like fishing. You catch one fish, you know the next will come out (Participant 6).

"Because of course they have to trust you, and if they're going to recommend you to their cousin, you have to be trustworthy...So you know, when you have that kind of relationship and the networks are important. Large families, interlinked families. You know you can rely on deals that are much more trust based than they are in the West, where relationships are more transitory..." (Participant 11).

Many participants have highlighted that it is especially important to build friendships in order to conduct business. Participant 6 stated they have more "friendship-based meetings".

"...They are more of friends and family oriented. It is a culture based, it's not like the European or the American market where it's completely business" (Participant 6)

"...become the friend for you to business with them instead of maybe follow the process. Follow agreement that we have. We have seen more like from the Western culture side, right, the Europe and US but in our region, Middle East because of this so strong cultural... you know, understanding of their culture, understanding of they, the way of the business and do things accordingly. It's very important for our success..." (Participant 7).

"...in the Middle East, they want friendship rather than association or like it's like, say, a normal salesman can have a product. So, this is my product. These are the brochures. Take it or leave it. But this doesn't work over here you have to work on your relation with him be his friend first and then be you will be able to sell your product..." (Participant 6).

"...before you ever invite him to dinner... many visits, frequent time get to know him... win his trust and he should be having confidence in you...then you can invite him to dinner, and then the process starts..." (Participant 6).

“...Trust... being consistent and delivering on our promises. In every transaction, it takes time to build it...” (Participant 9).

“You should be able to understand the customer's need. You should be able to know what he is, what is his future goals, how big he wants to expand.” (Participant 6).

“...you know, these relationships are governed by a legal contract, right? But over and above the legal contract, there must be a psychological contract and that psychological contract is underpinned by psychological safety. And that safety is created through relationships and relationships are not built in the boardroom... in the boardroom we build things that are legal and contractually binding. And outside of the boardroom, that's where you create, you enter into psychological contract and build relationships. (Participant 8).

“... they want to see you in a social environment. They want to see you relaxed. They want to hear about your family. They want to meet your children, they want, you know. All of these kind of factors are important to them in terms of building up an entire picture of what you're like as a person. Yeah. And that's the emotional trust. So that takes a long time to build up.” (Participant 11).

“... Knowledge sharing so that you share knowledge, you make yourself vulnerable. Trust is all about making yourself vulnerable.” (Participant 11).

“...making sure that communication between the company and the ICP or end-user is more face- to- face than through emails or fax machines. It has to be a person. There has to be a personal human aspect to interactions between that company and either the ICP or the channel partner or the users.” (Participant 12).

“...after a meeting, we go for dinner or you go to the CEO's house for dinner or after, or any important meeting you guys go to eat. So, they value food. So the idea of exchanging ideas over a healthy meal... You have your journey meeting and you guys got for a feast or for dinner. We eat at the CEO's house or at the restaurant, but there has to be a lot of food.” (Participant 13).

“...more long- erm, it's more. It's more relationship building, it's more. I'll invite you to my house for dinner. I want to meet, meet my family. My wife and we meet for shisha and we talk and we discuss. So, it's more relationship driven.” (Participant 13).

ii. Sub-Theme: Word of Mouth

Participants representing Western MNEs highlighted the benefits and dangers of Word of Mouth for businesses in the region.

“...it's a group network as I told you, these are single owner, huge businessman. So, if one you have a bad effect with one you have with all so you have to be very careful when you are playing with the. Big league. So, you have to have. You can't afford to lose even one person's relationship. The word of mouth spreads very fast. It's unlike anywhere else where...” (Participant 6).

“...The word of mouth spreads very fast...it can tarnish the complete image of your company and many companies have gone bankrupt... they have lost their market share...” (Participant 6).

“ the word of mouth is such a huge, huge thing. I mean, if a certain customer who is respected... says that this equipment is really good. Then it's like, you know everybody will, say that. But it's not just anybody. I mean the key, really key customers who are known that they have integrity, that they are very well experienced... was using equipment. When they say something like this, the word of mouth goes like fire.” (Participant 12).

Participant 11 underlined the utility of word of mouth between family and business networks and relations. He illustrates how business networks are formed through word of mouth as in the example below.

“...if you want to find a distributor, you might not be able to find a distributor, but you might be able to find somebody who's the cousin of a distributor... you might be able to find someone who's married to a distributor. Yes. So this is often the way that it goes in the Middle East.” (Participant 11).

b. Theme 2: Communication

Participants indicated the implicit nature of the communication in the area as well as its importance to doing business.

“...they may not tell you what they expect because a lot of it is so implicit...” (Participant 11).

“...Communication, it is always a big factor of doing business in Middle East...”
(Participant 7).

i. Sub-Theme: Verbal Communication

Participant 12 shared an experience with a local channel partner being frustrated with the receipt of a letter merely stating which is and which is not covered in a business invitation. The innocuous letter was received negatively by the receiver who had inferred unintended meaning. Participant 12 highlighted that written communication can carry unwanted implications and that it is always preferable to send messages verbally in the region.

“Implications. You know... this letter, it clearly states we do not cover alcohol for example for when you stay, if you go we cover the hotel because we invited you. But if you use alcohol, it's not part of our agreement. So, it's very clearly stated and it doesn't have any implications. I mean, from a Western perspective. In an Eastern perspective... people try to take more out of the words they see than they actually are. So, it goes to... are you implying that I'm going to use your invitation, for example, to drink alcohol? Are you implying that that I'm going to miss use your invitation to do that? So, it's always advisable to do the verbal communication.” (Participant 12).

Participant 9 pointed toward the alternative of the Western “Mister” or “Mr.” as a respectful title, explaining that calling someone “Father of [the name of their son]” is a form of respect as it shows familiarity and intimacy with the person and earns endearment.

“ We don't call Mr... but definitely there are ways of providing like respect to the person now, one common thing is... especially with person that you already have certain level of relation is to call him by... father of, but we could in Arabic it's Abbu something, right? So, let's say my son is Saif, right? So, if you call, you can call. Me, Abu Saif. Right. It means you are father of Saif. It is a common thing and it's a sign of respect... And that shows kind of intimacy and it helps building the relation, not necessarily it will build the trust right away, but with time that that gives a signal that, you know their family. You recognise them by that and that helps with the relation.” (Participant 9).

ii. Sub-Theme: Non-Verbal Communication

MNE participants seemed to echo the sentiments of the Local Partners in many aspects in terms of the nuances in non-verbal communication, for example body language appeared to play a vital role in the region, from smiling with teeth showing to handshaking, gestures, and dress-code.

“You don’t just walk into a room and sit down. You must wait to be shown your seat.” (Participant 8).

“It’s important that the highest-ranking person is sitting on the opposite side of the highest-ranking person... from the other team.” (Participant 9).

“The handshakes, [dress] codes... but generally speaking. Anything that can be that can give a signal or deliver a message using your body language or gesture or an act that you do are all part of these social norms.” (Participant 9).

“I remember one time I rocked up. In a meeting. Wearing my suit and... the guys were wearing their traditional regalia. And I was not well-received... someone came to me. One of the guys who were in the meeting and said, no, they actually don’t trust a man in a suit. So, the following day I rocked up with just wearing a Chino and a shirt, no jacket and semi-formal semi-casual shoes. And I was well-received. And you know, we are still doing business with that with that distributor... it’s little things that matter...” (Participant 8).

c. Theme 3: Respect

Participants highlighted some of the specific nuances of respect in the region when doing business.

“...you need to make sure... they company position, you know their personal position in the company.” (Participant 7).

“Some of the biggest factors is and as you mentioned, for respect, you need to have respect with the partner that we are dealing with. It is very important to them. And when we say respect, we talk about in, in a broader general sense of term. So, your local partner is not someone that you can play around with, it’s. He’s a big player in the market. You need to have all the dealings with respect.” (Participant 10).

“...in many ways, by showing them a written contract, we have that Western hat on and show them a written contract it offends them in cases, yeah. Because there's not part of their culture.” (Participant 11).

“...you need to understand some of the just code of conduct that comes within an Arabic setting... you need to respect hierarchy and mannerisms and the manner very respectful.” (Participant 13).

i. Sub-Theme: Status

A major factor for Western principals was the hierarchical nature of business and how status is perceived and received in the region.

“Now it is very hierarchical. You will find more closed office policies compared to, rather than open office policy, which means that. It's not easy for everyone, for example, to go and just speak to the CEO... You need to speak to your supervisor and then your supervisor speaks to her manager, his manager, and then to see, right? So, you need to follow the chain of command, let's say. Now I know, and maybe some other cultures, it is very open you can just knock the CEO door and go have a chat with them, right? So, I would say yes, it is more. Closed office. It is more of focusing on the status.” (Participant 9).

“ If you are in Western world as long as you say I'm representing this [company], it's OK people understand this. Here for example, for certain very key customers. When there is a visit from the company, they expect the GM to come.” (Participant 12).

“If someone is the CEO, there's a respect that's given to the CEO. There's a respect that's given to the head of department. So, if the meeting is being conducted, they want to address those key people first so that there's hierarchy and people know in terms of introductions, it's important to know who's in the room and. What their role is... maybe they come. And they do the opening statements so that at least there's top down driving of their agenda. If the CEO speaks first and it means that they're signing and they're participating in the meeting, it means the meeting is important. So, it's those things. It's just respecting the hierarchy.” (Participant 13).

ii. Sub-Theme: Collaboration

For some Western representatives, alignment, collaboration, and transparency between partners was a deciding factor for success in the region.

“The most important, and this is about the psychological contracts, you need to be able to come and to sit down and to have an open and honest conversation regarding your expectations from your local distributor without having you know something that you keep in the pocket for playing around with the distributor at the later stage. Because those kind of things will not work.” (Participant 10).

“You need to make sure that there is a certain level of understanding alignment. Even if you don't agree, there's a certain level of alignment that you need to have between yourself as a multinational company and the local partner that you are dealing with.” (Participant 10).

Participant 12 identified an important aspect of Western/Local collaboration, in that often collaboration is finding the middle ground, particularly in terms of unmet contractual obligations from local agents.

“...the contract. So, by that contract you have to pay, for example, a certain amount of money. If this money is not paid on the right time, several times, then we send letters explaining that this is not acceptable because, I mean, we did our part of the contract and delivered on the timing. We agreed. We do the after-sales service as per your expectations and the contract, of course. But when it comes to the payment, we don't get it. Usually on the timing we agreed. So, when you do that in Western companies, it's totally understood because you know they understand that this is a contract. And it's not, you know, like we're not friends, it's our, our companies, our business... and it's done like this... on the Eastern side... when you send for example such a letter, it's an insult. They think it's like you know we have a special relationship going on and you cannot send me a letter. Like this? OK, so this is sometimes Western companies fail to understand this because when you do such a thing the way they expect you to respond is through a phone call or through a personal meeting. That you explain and it's not like you're going... If you don't accept my point of view, then... there's a problem. They don't want that. They want, you know, we go and we talk and then we promise that we find a

middle solution, a solution that is... on both sides... this is I think different than what Western companies experience in the in the Western world. (Participant 12).

d. Theme 4: Cultural Considerations

The participants accentuated that at times the introduction of a formal agreement has been perceived as presenting a lack of trust, and preferred verbal commitment . Most participants indicated that a verbal commitment, trust and a handshake on a contract was as effective as the contract in the business dealings.

"...the leader's verbal commitment seems as effective as the, as the contract..."
Participant 7).

"Their word is their bond. A handshake is the deal in itself, because that's the way that it's functioned for hundreds of years, if not thousands of years. So, they don't see any reason to change that. And when they give you their handshake, then that should signify that the deal has been done and they will live up to. That deal. So, in many ways, by showing them a written contract it may be seen as defensive" (Participant 11).

"... if that person... opens his mouth and promises something, you know that... this is not gonna happen if you go ahead and... say, hey guys, you know, I need to sign the contract... Maybe the people there will feel, hey, you know why you say that? You know, are you not trusting me?" (Participant 7).

"If you come, you know, like with Western mentality, this is how we do it in Germany and this is how it's going to be done and all of that you will not last along in this region."
(Participant 12).

Participant 6 accentuates the earlier point of reliance on verbal agreement as this is presenting the importance placed on integrity and commitment in Arabic culture.

"...You know you can rely on deals that are much more trust-based than they are in the West, where relationships are more transitory and we're not deeply connected to the societies in the same way. So yes, Western firms need to think about how do we go in, what sort of contracts are we going to go in with, and this is very difficult for Western firms because another aspect of culture is misunderstanding." (Participant 11).

Participant 10 stresses the implications when the business culture in the region is not taken into consideration.

“...once we received this, you know, general manager who has come working from Europe which is very used to pounding on the distributors, right? Because if you don't do your sales from next month, you're not going to be my distributor anymore. I will not give you a single unit. He brought the same mentality here in the Middle East... Ten days down the line, the gentleman was gone because this is not how you can treat your distributor like a vendor selling vegetables...” (Participant 10).

i. Sub-Theme: Cultural Sensitivities

Sentiments regarding cultural sensitivity ranged from not wanting to appear as an outsider, to avoiding showing disrespect.

“...standing when shaking some the other person hand that's always important... some people will find offensive if one person is... extending their hand to or handshake and the other person keep, stay seated, that can be that can indicate some kind of disrespect. (Participant 9).

“...hugely important that we respect these [traditions] Some women in the Middle East want to shake your hand. Others want to tap their hearts, you know, and we have to understand... we have to try and read the signals. You know, if it's a woman with a... hijab [on] they're more likely to touch their hearts. Yeah. If there's one has free flowing hair, then they're more likely to shake your hands. So, you try to learn these different, you know, signals in a way so that you don't show yourself too obviously to be an outsider...” (Participant 11).

Regarding being sensitive to their regional partners, Participant 12 mentioned that they would vouch for their distributors with their MNE's headquarters if word-for-word contractual agreements weren't being met, despite not necessarily having the authority to make a definitive decision.

“...sometimes look the company is asking me that the payment should be done next month. But because I know you, I know I can extend it for you for three months and this is on my personal. You know, I take it on my on my authority. It's not even my authority to do that. But I will do. It and I will handle it with the headquarters... this is what I went

to was personal, that kind of, you know, relationship and communication this is expected.” (Participant 12).

ii. Sub-Theme: Cultural Expectations

In contrast to cultural sensitivities, cultural expectations are hard-coded into the culture, and failure to meet expectations can result in unproductive business deals.

“...There's lots of cultural elements within the Arabic culture, for example, that we don't have in the West. We don't have that type of obligation. Sometimes we live up to being nice to people. But it's not a moral obligation as it is in in the Arab world.” (Participant 11).

“ They might expect that you're there three days a week. They might expect that they invite the distributor back to their family. They may expect gifts, they may expect all kinds of things... So, we need, in a way, to get into the head of the distributor. And that's very difficult when it's tacit knowledge. ...” (Participant 11).

“...before you talk about business...maybe you talk a little bit about the sports, maybe you know something else you know for you to build the personal relationships it doesn't necessarily mean that you can just go and discuss about business, you might need to, you know, say something else, you know, maybe discuss about a little bit of the big events that happening recently or maybe discuss about the weather, right, or discuss about the food...” (Participant 7).

“...You need to be able to commit yourself a lot. If you're not prepared to go up to the mountains and have a weekend at somebody's summer house, or you're not, you don't want to go out eating with people for several hours. Every night you want to go back home and deal with your emails then, then forget it. That's not the way that it works. So, you have to spend a lot of time and effort on accepting that famous hospitality and their desire to be close to you emotionally. That takes a long time. To do that. That's not going to happen over a month or even maybe a year, it requires deep relationship. So many firms can't do that, of course, because they're there in the region. They say, oh, I've got one day I can be there on July the 7th, and then they're flying somewhere else. Yeah. So that's very problematic for the Arab culture because then they're thinking, well, they're not prepared to invest in us...” (Participant 11).

“Engaging with them in celebrations and for example, when it is Christmas or Eid or any occasion, is to maybe congratulate them and send them best wishes for the new year or whatever the occasion is.” (Participant 9).

“...Deals in the Middle East are not cut out in the boardroom.....So deals are typically done around, you know, dinner tables around lunch tables. Those around you know sports and those activities that build relationships. Uh, that's what I've observed and it's the practice that I've seen”(Participant 8).

“...you have to understand what is his troubles, what is he facing? How can you be assisting him rather than just be a salesman with a catalogue...His problem may be very. You so like say on this... You use this machine of mine and we can help you source out another machine in the market and we can couple it together and this will definitely solve your problem...” (Participant 6).

“...expectation from customers is a lot. We can never fulfil the expectations...” (Participant 6).

“...it could be that someone in the Middle East says they'll work on it. And in the West, we think that that's going to take a day and in the Middle East it would take a month.” (Participant 11).

iii. Sub-Theme: Religious Sensitivities

The impact of religion on the area was highlighted repeatedly by most participants from Western MNEs, such as Participant 8 who linked the culture in the region directly to religion, *“.... culture is informed by religion...” (Participant 8).*

“...So, these are Islamic countries. They go by the Sharia law and the cultural awareness is very, very important. If you do see a lady of Islamic faith, who is, you know, probably one of the locals from the country, you do not go into a meeting and extend your hand because women will not shake your hand. It is it is not allowed by their religion for a male and a female to shake their hand... this is the law of the land” (Participant 10).

“...some of them they don't shake even a lady's hand. That, that, that. You know how I can say conservative there...” (Participant 6).

“ If it's during Ramadan, you need to understand that meetings need to be held. You need to have meetings before 3:00 PM because they stop working at 3:00 PM, so you need to understand that if you're operating with a Muslim, Muslim in a Muslim territory... you need to be cognisant of prayer times, so meetings cannot be held during prayer times during the month of Ramadan. You cannot be working beyond 1:00 PM or 3:00 PM, so you need to be aware of these things. So, this is also taking into account the religious practice.” (Participant 13).

“People in that region tend to be more religious than in the Western world, so religion is something which is of value of big value for. So, showing that you respect their religion or their religion, religious traditions, or you know this, this shows your respect.” (Participant 12).

Participant 6 discusses the influence and impact of Islam as articulated in The Quran, explaining that financial practices such as gambling are prohibited and not aligned with Islamic principles.

“And this so just to give you an example, one of the things that the Quran says. And all the things that we know about in terms of alcohol and clothing and stuff like that, one of the things that you're not supposed to do is engage in any form of gambling. Yeah. So gambling is prohibited. Yes, so. So, we might think, OK, well, they don't bet. Yeah, they're not going to bet on horse races. They're not going to bet on football matches. Yeah, of course. But that's the first level. What else? Well, they're not going to take risks. So, you know, you can't, for example, hedge currency. Because that's some kind of risky activity. Yeah, so. There are certain practices. There are certain products and things like this, which it's very, very difficult to get to terms with in a western sense. You know, our Western banks tend to rely on the rates of interest as being the key drivers to their success. You know, in terms of how much they're paying people who are lending money to them. How much they're charging? You're not allowed to do that. That's what they call rebuy in in the middle. In Arabic. You're not allowed to go and simply charge that so you have to think of ways around it. ...They're not going to take risks... there are certain practices... which it's very, very difficult to get to terms with in a Western sense.” (Participant 11).

e. Theme 5: Political Structure

The speakers' experiences accentuate that understanding the political landscape and structure is paramount to how Western multinationals engage to mitigate and avoid misunderstandings and conflict.

"...I think understanding the... political, geographic... you know what's happening on the ground, especially from a political perspective... is important, right, because you want to make sure that you don't say the wrong thing because in those regions, it seems like those play an important part in people's daily life." (Participant 7).

"...you can, you can go to another country. Let's say you go to... the UK and open your your multinational company and you work with a distributor and you say B2B, OK, this is what we should do and you're not in line with him. [You] can say all right, tomorrow I'm going to dismiss you and I'm going to appoint somebody else. Here you cannot do that." (Participant 10).

"...You go to the Middle East, the trust between people is intense because they don't have those formal institutions to rely on. And in many cases. You know, relationships become super important and that's the gateway to get into the market...." (Participant 11).

"...in the Middle East we operate what is called Sharia law." (Participant 13).

"The legal system is Sharia law in certain parts of the country which is a interpretation of the Quran...prescribes what kind of activities we can and what kind of activities we cannot do...." (Participant 11).

"...we have a lot of political turmoils there's a lot you know of, sometimes revolutions happening. You know it is an unstable region in a way." (Participant 12).

Participant 11 touches on the tribal or regional differences within the region and highlights how political structures have been shaped through variances in belief over centuries.

"They have a completely different way of looking at the world... and this goes back to the Prophet Mohammed. This is back to the you know the 7th century in terms of the interpretation of how the Prophet Mohammed found his successor. Should it have been

a family member? That's one group that believes that or, or should it have been based on a kind of an election of the best suited person?... and this division in just beliefs creates two completely different societies and in a way lots of political divide... So you have to bear that in mind. What's the history of the country?" (Participant 11).

i. Sub-Theme: Monarchy

Participant 10 repeatedly expressed how the monarchies, which are prevalent in the region have a significant effect on business dealings, and to an extent the success or failure of Western entry.

"This region is run by kings, it is a monopoly. Most companies can have only one distributor per country. So unlike countries in Africa or in Europe where a principal company can have ten different distributors, we are not allowed to have ten different distributors. We will have the one local partner" (Participant 10).

"It is a close, very close and network at the end of the day they are all coming from the royal family. They are all connected in one way or another... Some of them are really, you know, good businessmen, but then they have become so rich that they're very close to the royal family now. Majority everything over here in the Middle East is a monopoly." (Participant 10).

"These countries are run by kings and by queens. This is not a democracy. Right. Their decision is ultimate... so that kind of awareness that multinational companies need to come in having come into the country is very important." (Participant 10).

"In majority of the country, especially the GCC, you need to have a local partner in order to sell. These local companies, which are massive enterprises, are owned either by the royal families here... So, in the Middle East, you are not allowed to have your own distribution or your own sales. In majority of these country, especially the GCC, which is the Gulf countries in these countries, you need to have a local partner in order to sell." (Participant 10).

ii. Sub-Theme: Family-Owned Business

Some participants highlighted the tight business networks and the commonality of family-operated businesses with their own networks and influence in the region.

“... most of these customers have their own business. So, you have to be able to understand where is he having problems in his business... you have to understand what is his troubles, what is he facing and how can you be assist him rather than just be a salesman with a catalogue and like... give him a solution ...” (Participant 6).

“...some of the customer you know who is just, you know purely family owned.” (Participant 7).

“... your distributor is from a royal family, you are not the only brand that he has you will be one of the ten big brands that he has, so you may not be doing well, but he's still doing well with the other brands that he owns now ...most times, the distributor is more powerful than you. As a multinational company.” (Participant 10).

iii. Sub-Theme: Political Implications

Participants expounded on the political implications of doing business in the region, including political conflict, and the lack of Western-style formalised legal institutions.

“So in the Middle East, you are not allowed to have your own distribution or your own sales. In majority of the country, especially the GCC, which is the Gulf countries in these countries, you need to have a local partner in order to sell”. (Participant 10).

“So some of the practices that are governed and acceptable... they're different in Western law and in Sharia law. So I'm just saying it from that on its own, understanding the differences in the law. And how that impacts your business, it needs to be unbuckled by the legal teams before they engage.” (Participant 13).

“So, in the West, where the property rights are very highly developed and transparent, then it's very easy to write formal contracts because they can be very easily [defended]. It's a lot harder to defend formal contracts in countries where the inform [Sic]. Institutions are not so strong, there's no reason to have everything written very, very clearly. If you can't defend it in a court of law. So, for that reason, many reasons regions around the world have relational contracts or spoken contracts because the written contract can't really be used for anything.” (Participant 11).

Participant 10 echoes the informal nature of contracts and how a distributor's word can change things for a multinational principal.

“You need to have very good relationship with the top, top senior people or the owner of the company... Thing here is that one phone call to that person who owns everything in the Middle East in that distributor can change everything. Policies will disappear. (Participant 10).

Participant 12 provides an example of a specific political turmoil in their North African region which has severe implications for Western MNEs which are considering or already have a presence in the area.

“...we have a lot of political turmoils, there’s a lot you know of, sometimes revolutions happening... People in that region, they are very much expecting that companies who find those unstable situations to sleep?... For example... if you go to Sudan, you find a lot of Western companies that work there in Sudan and... they work for a while. They couldn’t work at that time under the American US has imposed sanctions because it was, it was making doing business there very, very difficult because, you know you cannot transfer currency from dollars from Sudan to other part of the world. Everything that you sell to Sudan has to go to an office in the US it, it was very complex. So, they just come, they do some business, but then they see that they cannot continue and they [leave]. So, people see that... a lot that companies can come... to that region. And they leave. And then of course, when they leave, it’s not the same as before, even if at a certain distributor is appointed there, it’s not like the original manufacturer was there because you know the expertise of the people is different... so people in the in that region are always sceptical, about. If those, especially multinationals, will remain in the country for long...” (Participant 12).

Participant 12 goes on to explain that there would be dire circumstances for their partners should the MNE not renew their contract and leave the area.

“...for the example I have given... our channel partner in Sudan, for example, they know that for example if after a while, we do not find it easy to do business in Sudan, we’ll just, you know, will not renew the contract. And, and that’s it. And they will be in trouble because they already sold our equipment and all of that there and then they have to see how to do the after-sales service it’s going to be very complex for them. (Participant 12).

5.3.3. Main Key Themes Relationship Diagram

The main objective of developing a diagram is to provide a visual representation of the key major themes found in the research and their associated sub-themes that effectively capture how abstract concepts relate and the interaction of the themes (Merriam & Tisdell, 2016) and their relationships to understand abstract concepts (Charmaz, 2014).

Table 7 – Summary of Coded Themes and Code Count

| | LOCAL PARTNERS Gr=152; GS=7 | WESTERN MNE Gr=203; GS=8 | Totals |
|--|---|--|---------------|
| Communication Gr=65; GS=3 | 50 | 30 | 80 |
| Cultural Considerations Gr=130; GS=4 | 74 | 78 | 152 |
| Emotional and Personal Connection Gr=104; GS=4 | 70 | 55 | 125 |
| Political Structure Gr=39; GS=3 | 4 | 36 | 40 |
| Respect Gr=67; GS=4 | 46 | 35 | 81 |
| Trust Gr=114; GS=5 | 61 | 71 | 132 |
| Totals | 305 | 305 | 610 |

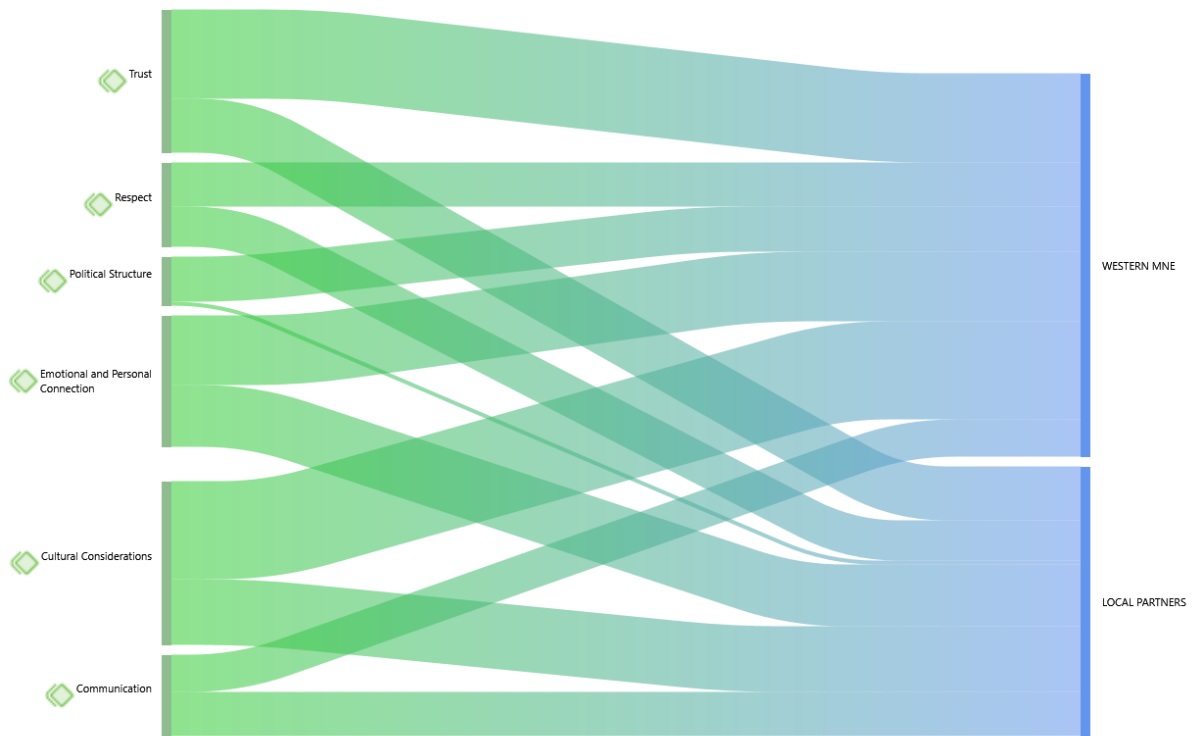


Figure 5

The Sankey flow diagram is used to represent the relationship flow between the interviewees key reported insights and the six major themes that had emerged from the research and the frequency of discussions among the themes between both research groups (Du & Vantilborgh, 2021). The width of the lines represents the frequency in which the participants emphasize the themes in the interview discussion. Research presents that both groups almost synonymously underlined the importance of respect, emotional and personal connection and communication. Contrastingly, trust and cultural considerations both hold predominant position for Western MNE representatives as compared to the local channel partners. Interestingly the Western MENA representatives dominate discussions relating to political structure while one participant have mentions this as an important factor from the local MENA region participants representatives. This is illustrative and indicative as the most discrete line on the graph.

5.4. Addressing Research Question 2

In addressing the second Research Question (RQ2) in understanding the key factors that would enhance the psychological contracts between MNEs and independent distributors, respondents' findings present a few key variables that underpin relational dynamics that can be implemented by MNEs as part of their internationalisation strategies.

5.4.1. Local Partners of Non-equity Networks: Recommendations

To understand methods for enhancing and improving psychological contracts between Western MNE's and local MENA channel partners, the local participants underscored honesty and transparency as crucial fundamental elements when enhancing psychological contracts.

"...you have to be honest.... Even a very small lie about your product... they will never trust you again, even if you do everything right after. To build that trust again, you will not. You will lose this customer forever..." (Participant 1).

"...I think the most important one is transparency. Between each other's, yes..." (Participant 1).

"...transparency is very, very important, and transparency means that you share information that is allowable for sure and you share it in a proper way." (Participant 2).

"Open discussion for the manufacturer or the Western companies." (Participant 3).

Respect was a second recommendation shared by the participants which closely relates and interconnected to hierarchy and authority where status and social order is important.

"...If you are meeting someone that is having high title and probably also his age is looks older than you... They expect you call them Mr.... Local people expect to be treated with very extra care." (Participant 2).

"...mutual respect should be as a solution..." (Participant 3).

The interviewees underscored the importance of hiring local staff.

“...hire at least a few people in the region for. The upcoming investment the company wants to make and to work on the project from local hires... local hire for sure is very, very important...” (Participant 4).

Local MENA channel partners highlighted the importance of cultural training for Western multinationals.

“...I think the second part is training. We’ve reached, let’s say, an era in the world where technology is next-level. Everything that you need to understand sometimes is available online, even something. As you know, what is important culturally and what is important psychologically for a specific region, I think it’s very important that anyone that say any company that’s setting up a team in a different region, the team transferring to that region definitely needs to go through a proper training, be through online courses...” (Participant 4).

Mirroring Participant 4’s recommendations, Participant 5 shared the view of a cultural programme;

“Culture programme, culture programme doesn’t mean that’s three months course no, I mean it could be three hours or two hours course about the country specific country you are going there that’s you have to consider this.” (Participant 5).

Table 8 lists the factors that Local partners of non-equity believe Western MNEs would need to implement to enhance psychological contracts.

Table 8

| No. | Factors that will enhance Psychological Contracts | Participant No. |
|------------|--|------------------------|
| 1. | Honesty and Transparency | 1, 2, 3 |
| 2. | Cultural Training | 1, 2, 3, 4, 5 |
| 3. | Hire staff from the MENA region | 3, 4, 5 |
| 4. | Respect (Personal & Cultural) | 2, 3, 4, 5 |

5.4.2. Western Partners of Non-equity Networks: Recommendations

Western partners were similarly asked to share their perspective on factors that could potentially be implemented to enhance psychological contracts. While their feedback mirrored local MENA channel partner views of local hire and cultural training, they had further presented elements of physical presence. Participant 6 presents physical presence as crucial to building personal relationships.

“...So, in order to build a relation I would. Say you have. To have visit to these customersand meet...him physically rather than on the phone. Physical presence in the Middle East plays an important role. You have to meet physically, you have to physically be present, physically meet... and greet is most important... We always go out and meet the customers rather than just call or depend on somebody.” (Participant 6).

“...should understand the mind of the people. Before they enter, otherwise they'll come out with the most expensive and most sophisticated product, and the market is not willing to accept these things. Then you will lose out on the market...” (Participant 6).

“...as I said, one of the major business, this is mostly how I can say like be unofficial, go out for dinners. Frequent meeting. It should not be a very formal type of meeting, more of a friendship-based meeting. Or you should be able to understand the customer's pain. You should be able to understand the customer's need. You should be able to know what he is, what is his OK future goals, how big he wants to expand. And you should know if he has money also in his pocket...” (Participant 6).

MNE's western representatives accentuate the importance of local hire due to the familiarity with local customs and similarly to local partners highlight cultural training as paramount to successful business relationships.

“...You'll have to bring local staff, I mean to say who understand the culture.... you can't bring local staff at the below level they have to be mid-management staff who knows the business, how it runs in the Middle East. Without them, you will have a difficult...” (Participant 6).

“... local employees who can help us to do, to negotiate or discuss or explore the customer locally. I think it's important. Have the consultant company, you know, you know local consultant company giving them some of the you know or feasibility report

or studies or competitiveness. Reports or whatever visibility... I think that's important you know to get into that country and then to find your anchor customer.” (Participant 7).

“Through training or have the external consultant company, right.” (Participant 7).

Western MNE's accentuate that understanding the political landscape is central to mitigate misunderstandings or create conflict.

“...know what's happening on the ground ,especially from a political perspective. You know is important, right, because you want to make sure that you don't say the wrong thing because in those region it seems like those play important part... understand their religions is also important...” (Participant 7).

Similar to the MENA local participants, the Western MNE's presented the importance of respect in the region.

“...respect the law of the land.” (Participant 10).

“...showing that you respect their... religious traditions...” (Participant 12).

“Just respect the hierarchy.” (Participant 13).

“So, you as a principal OEM or a multinational company who's entering need to make sure you find the right distributor you have the right terms and conditions. Your contracts are well looked into because the possibility of you to change your local partner which is just one in the country is very, very difficult and it's a very, very long process.” (Participant 10).

“Studying session within a group within an employee who's dealing with that region and make sure that they are equipped to understand their business culture beforehand. You know it's. It's also important.” (Participant 7).

Personal engagement implies meeting the family or going out for dinners. The participants highlight that this is important for doing business.

“It's more relationship building, it's more. I'll invite you to my house for dinner. I want to meet, meet my family. My wife and we meet for shisha and we talk and we discuss. So, it's more relationship driven.” (Participant 13).

“...the strength of the relationship... you cannot do business with them if you are not engaged personally with them.” (Participant 8).

“...the softer side of things you need to have a thorough understanding of before the business relationship can flourish.” (Participant 8).

“It's more relationship building, it's more. I'll invite you to my house for dinner. I want to meet, meet my family. My wife and we meet for shisha and we talk and we discuss. So, it's more relationship driven.” (Participant 13).

Table 9 lists the factors that Western MNEs of non-equity networks believe would need to be implemented to enhance psychological contracts.

Table 9

| No. | Factors that will enhance Psychological Contracts | Participant No. |
|------------|--|------------------------|
| 1. | Physical Presence | 6, 8 |
| 2. | Specific Market Understanding | 6, 7, 11 |
| 3. | Specific Cultural/Religious Understanding | 6, 7, 8, 9, 10, 12, 13 |
| 4. | Specific Political Understanding | 7, 10, 13 |
| 5. | Relationship, Friendship | 6, 8, 13 |
| 6. | Hire Local Staff | 6, 7 |

Chapter 6

Discussion of Results

6.1. Introduction

This research has explored the contextual differences that exist between Western and Arab societies that influence the psychological contracts within the principal-agent theory context. In this chapter, the research findings presented in Chapter 5 are discussed in detail, focusing on meaning and understanding of the contextualised data with the main objective of building on the iconic and widely acknowledged principal-agent theory model, and providing practical application to MNE's internationalisation strategies to achieve competitive advantage. The data coding of themes and sub-themes enabled the aggregation and refinement, consolidation, reduction and interpretation of the data (Merriam & Tisdell, 2016), offering valuable insights into expanding our understanding of the principal-agent problem.

The chapter commences with a discussion of data quality control and saturation followed by in-depth discussions of the interrelationships between themes and sub-themes and academic extant literature presented in Chapter 2 with the aim of answering the core research questions.

6.2. Quality Control and Data Saturation

Morse (2015) notes that saturation is “the most frequently touted guarantee of qualitative rigor offered by authors” and has been referred to various researchers as the “golden standard” for determining sample size (Saunders et al., 2017). Qualitative researchers state that upon interviewing 5-8 senior leaders' data, saturation would be appropriate (Fusch & Ness, 2015). Van Rijnsoever (2017), academic qualitative researchers states that the research achieves inductive thematic saturation as the emergence of new codes and major concepts had largely ceased (Van Rijnsoever, 2017) and when data gathered become replete (Saunders et al., 2017). Van Rijnsoever (2017) extends this notion presenting that theoretical saturation is attained when every pertinent piece of information required to acquire comprehensive insights into a topic and answer the research question have been found. This view is supported by Fusch & Ness (2015) noting that saturation is reached once the depth of data and understanding had been achieved. The study research presents inductive thematic saturation from both groups

as the emergence of new concepts have ceased and insights to answer the two main questions of the study becomes repetitive.

To assess the trustworthiness of the data, four key elements are assessed; credibility, transferability, dependability, and confirmability (Lincoln & Guba, 1985; Nassaji, 2020). To ensure credibility of the data, in-depth one-hour interviews were conducted with senior leaders for both local MENA representatives and Western MNE groups. To achieve transferability, all the interviews were recorded which allowed the researcher to assess the transcripts of rich descriptions of findings. To ensure dependability of the data, the semi-structured interviews allowed flexibility to ask questions that gave unexpected and detailed insights and transcriptions were transcribed verbatim. Lastly, to guarantee confirmability, the data coding records, data analysis, codes and themes are processed on Atlas TI.

6.3. Research Question 1 Discussion

A psychological contract development framework was developed and presented in Chapter 5 Figure 6. The findings represent similarities, minor differences, and major differences of perceptions between MENA local partners and Western MNE participants of how psychological contracts affect business relationships. The findings can lead to several conclusions about the application of psychological contracts to the principal-agency theory and building long-term, strong business relationships.

The main research question of this study was:

RQ1: How do psychological contracts affect the relationships between MNEs and MENA region foreign partners?

The key themes extracted from the research of both Western MNEs and local partners both feature (1) trust, (2) communication, (3) respect and (4) cultural considerations as major contributors that affect the development of psychological contracts and which impact long-term relationships to achieve symbiotic synergies between non-equity channel partners. The MENA, Arab region is a traditional and collectivist society, a culture that values and prioritises community, commitment, mutual trust, and support, providing a sense of belonging, strongly represented in the Arab nuclear and extended families (Cohen & Abedallah, 2021).

6.3.1 Trust

In a collectivist society such as the Arab world, Usman et al. (2017) determines that trust is at the heart of all long-term relationships and formed when one party trusts the reliability and integrity of another party. Usman et al. (2017) explains that integrity is the trustor's perception that the trustee has established principles of the trustor. In this study we take into account the actions that MNEs can take today based on perceived psychological contracts that can influence relational transactions. In academic literature, trust has been studied through a retrospective evaluation lens, which relies on the perceptions formed from past actions (Miller et al., 2020). Collectivist societies such as the Arab world prioritise interpersonal trust and highlight this as a fundamental factor and prerequisite foundational element to the formation of sustainable long-term relationships prior to business transactions (Weir et al., 2019). Research collected primarily presented that verbal agreements hold more prominence in the MENA region.

Western Multinationals' participants stated that: *"Their word is their bond. A handshake is the deal in itself, because that's the way that it's functioned for hundreds of years, not thousands of years."* (Participant 6) In a collectivist society such as the Arab world, mutual respect and trust hold higher esteem than formal written agreements (Shaalán et al., 2022). Participant 2 shared the same sentiments stating that *"...if that person opens his mouth and promises something, you know that it's going to happen and if you say hey guys, you know, I need to sign the contract... Maybe the people there will feel, hey, you know why you say that? You know, are you not trusting me?"*. Local Partners echoed this view stating that trust is fundamental core key to building relationships *"I see that trust is very, very key point and to build that trust it don't come in a day, three or two, or in a contract."* (Participant 2).

Weir et al. 2019 states that in Arabic culture "If trust is lost no amount of contractual rigour can bring it back." This is echoed in the research study where Participant 1 from the local partners stated that *"...you have to be honest.... even a very small lie about your product... they will never trust you again, even if you do everything right after. To build that trust again, you will not. You will lose this customer forever."*

The results mirror those reported by Shaalan et al. (2022) that state "Personal trust is another vital component to establish successful business relationships and ensure

satisfaction afterwards, particularly in a culture where the word is the bond, what people shake hands on matters more than what they sign”. In such context however, personal relationships and personal trust is the very foundation of emotional trust as presented by Ayari & Boulila (2022) and as such we can infer that respondents from the local MENA region are more concerned with emotional trust versus calculative trust. It appears that the creation of personal relationships leads to emotional trust which infers that the personal relationships are pursued to create that personal emotional trust with one participant stating “*...family is a whole thing in this country. So, if you ask about me and about my family, you care about me. So, you care about me, you would also care about my money and my business. So, I can buy from you...*” (Participant 1). The Western MNE’s presented a more logical interpretation of trust stating that “*Now the trust definitely there is a aspect of time being consistent and delivering on our promises in every transaction. It takes time to build trust*” (Participant 9).

Findings further point to emotions as the main foundation for building trust as their main bonding for local MENA respondents referencing the need for a deep sense of connection while those in the second group Western MNE’s predominantly expounded upon the more rational assessment of trust, cumulative trust dependent more on fulfilment of performance and capability (Ayari & Boulila, 2023).

6.3.2 Word of Mouth

Word of mouth... can destroy your business and your entire business. By word of mouth.” (Participant 1).

Both sets of participants presented the significance of word of mouth (WOM) as a core element to understanding the context of the MENA region and which has a significant impact on perception, expectations, and behaviour (Jham, 2018), representing the style of interaction and relationship strength in the region with one local participant stating: *Word of mouth... can destroy your business* (Participant 1), with the Western MNE representatives supporting this view stating “*...The word of mouth spreads very fast...it can tarnish the complete image of your company and many companies have gone bankrupt... they have lost their market share....*” (Participant 6). Hippe (2015) explains that in Islam the oral transmission of the message or “word-of mouth” holds significant importance accentuating that The Quran translates directly to “recitation” underlining the

importance of verbal communication or spoken words. This explains the significance of verbal communication in the Arabic world that is deeply connected by the teachings of The Quran.

6.3.3 Personal Relationships and Networks

The Western MNE's representatives underscored the importance of personal relationships and networks, however, it appears that the local MENA region partners accentuated the core elements of honesty and transparency as fundamental to fostering the personal relationships and networks presented by the Western MNEs. The key insight is that honesty and transparency are the leading primary elements to achieving the desired personal, emotional, relationships and networks in the MENA.

One of the most compelling notions in the field of social science is that human beings are inherently and deeply intertwined in complex social connections, interactions, and relationships (Berger et al., 2019). The prevalence and ambiguity of networks has been a focal point of study for many scholars and remains a riddle for many Westerners as it signifies the extensive cultural distance that exists between Western firms and Arab cultural customs and practice (Berger et al., 2019). In the Middle East Arab world, there is a heavy reliance on networks and sense of closeness that is deeply rooted in historical cultural values and traditions (Shaalán et al., 2022). Family and networks are considered as fundamental units of society that hold profound and significant impact in the decision-making process (Shaalán et al., 2022). 'Wasta' in the Arab world, describes social networks and connections. Wasta is an Arabic word (Toumi & Su, 2023) which has a literal meaning of "a connection" and often refers to interpersonal connections, family ties and close relationships (El Jurdi, & Houjeir, 2020)

Western multinational companies understand this with one participant stating "...you will lose that customer and you will lose the entire group. As I was saying, it's a group network... you can't afford to lose even one person's relationship..." (Participant 6), presenting the significance of the use of social networks as fundamental to business interaction (Berger et al., 2019) but primarily this begins with honesty and transparency.

6.3.4 Honesty and Transparency

While the concept of trust was congruent between both the Arabic local partner and the Western Multinationals, honesty and transparency were exclusively highlighted by the Arabic channel partners stating that to build trust one must present transparency “...I think the most important one is transparency...” (Participant 1) and supported by Participant 2 “...I feel transparency is very, very important. Transparency means that you share information that is allowable for sure and you share it in a proper way... That, of course, will impact the level of trust. (Participant 2)”

Researchers found that in Islamic business relationships trust flourishes when companies are committed to catering to the needs of the customer (Fauzi & Suryani, 2019). In congruence with academic literature, in Islamic teachings, honesty and transparency cultivate trust and extend beyond moral integrity but yield significant advantages for both business partners (Dewi & Dhewanto, 2012). “Honesty creates trust” (Dewi & Dhewanto, 2012). Kivrak (2023) states that honesty is the fundamental trait that upholds the virtue of trustworthiness, and that trust is closely interwoven with emotion and positive personal relationships.

Findings unveiled that while trust is illustrated as a central major theme by both groups, participants of Western MNEs have presented personal relationships and networks as the primary driver of building trust.

6.3.5 Communication: High Context Societies

Participants representing both MENA local partners and Western MNEs corroborated significantly on the view that communication is paramount to building psychological contracts: both verbal and non-verbal communication. “...Communication, it is always a big factor of doing business in Middle East...” (Participant 7). Within the Arabic culture, body language plays a very important role in communication (Alsharif et al., 2019).

Both sets of participants agreed with Zaharna’s (1995) view of Arabic culture as being high-context as in Participant 11’s own words “...they may not tell you what they expect because a lot of it is so implicit...” (Participant 11), and “a smile without showing teeth, meaning he’s a fake person...” (Participant 1). This supports the idea that the society in

the region uses language to allude to meaning which the listener must infer through contextual cues, and that such cues may be missed by Western listeners.

6.3.6 Non-Verbal Communication

Non-verbal cues were both referenced by Western and local participants, citing tone of voice, the way a person smiles, and body language as examples. From the responses, participants suggested that non-verbal cues tended to have a great impact on the way certain communication is received, as well as on the way individuals are perceived. Local representatives stated in their own words "...*You know people don't like talking high tone of voice (Participant 4), "...Smiling, this is very important... your body language and your tone" (Participant 2)*. For example, sitting cross-legged with the soles of your feet visible was referenced as a sign of disrespect, however, sitting cross-legged is not uncommon in Western cultures.

A Western partner may be misunderstood for being rude, when in fact they were merely sitting comfortably, alluding to the burden of the 'listener' to decode the message in a high-context society. Participant 5 highlighted this note: "*I mean you know you cross your leg or your shoes are a bit up, it's kind of I mean it's considered not respectful... in some countries or culture it seems like arrogant*". This is interestingly aligned with the customs shared a long time ago by Abbasi & Hollman (1993) in their own words "this is the non-verbal equivalent of telling them that they are worthy of being stepped on and is considered to be very rude." Miscommunication between high-context and low-context cultures in this example happens both ways as the 'speaker' of the non-verbal cue is ignorant of their misstep, while the 'listener' is slighted by a notional code. Participant 9, representative of the Western MNEs corroborate the value of non-verbal communication and states in his own words that "*It's important that the highest-ranking person is sitting on the opposite side of the highest-ranking person... from the other team.*" (Participant 9).

6.3.7 Verbal Communication

The importance of verbal communication in the MENA Arab speaking world is characterised as implicit and in his own words Barkai (2008) stated that in high-context culture "The information lies in the context". This is unmistakably evident in the research with both groups of participants, Participant 5 representing the local MENA

region and Participant 12 representative of the Western MNEs expressed the same view. In the interview with Participant 5, the speaker described how a person could be interpreted and perceived as boastful, disrespectful, and belittling to the local customer if the company they are talking to is communicating the size of the company and all company achievements in a demeanour and tone that could be interpreted as disrespectful and making them feel inferior. This is consistent with the findings of the researchers Alsharif et al. (2019) that emphasised the significance of modesty and humility (Ismail et al., 2022) in Arabic culture.

“We are proud of our company. But how we talk about company, we can talk about the company in a way that it's just representing the company and we can talk it, talk about it in a way that we are way bigger than you with. I mean we are better company...it all depends on how the way you talk the way you. You know that phrase your words...” (Participant 5).

Similarly, in the interview with Participant 12, the speaker shared an incident involving a letter of invitation to a local partner MENA region. The aim of the letter was simply to present and outline what the Western company would and would not cover and included alcohol as an expense excluded from the package. This letter was negatively interpreted, with the recipient reading the text and perceiving it as an insinuation that they were going to misuse the invitation by drinking alcohol.

Another point highlighted by Participant 9 was that one must communicate with consideration as in the region often to show respect one should refer to Mister or sometimes Abbu and then the name of the son. *“especially with person that you already have certain level of relation is to call him by... father of, but we could in Arabic it's Abbu something, right? So, let's say my son is Saif, right? So, if you call, you can call. Me, Abbu Saif. Right? It means you are father of Saif. It is a common thing and it's a sign of respect...”* (Participant 9).

6.3.8 Respect

Berger et al. (2019) describes the MENA region as a society with a relatively high power distance, thus signifying the strong acceptance and expectation of hierarchical structures, signifying notable disparities of power and authority which may be characterised as conservative in Western culture and often respect and modesty are

considered very important in the Arab world (Alsharif et al., 2019). More recently Western media houses *Reuters*, *Bloomberg News*, and the *Wall Street Journal* have been banned from oil policy meetings as a result of the Saudi Arabian prince's, "I'm not talking to Reuters until you respect the source, which is the energy minister himself on behalf of the Saudi government," he stated suggesting that the prince would like Reuters to respect the energy minister as a source spotlighting Barsness' (2018) note that monarchies prioritise tribal members, signifying the importance of traditional customs, beliefs and influence on contemporary Arabic society.

Mutual consensus exists between both local MENA partners and Western MNEs that respect is an important social value in the Arabic world with Participant 13 underlining in his own words "...you need to respect hierarchy and mannerisms and the manner very respectful" (Participant 13), with another participant echoing this view stating "So people here as an example, respect is very, very important... treated with respect." (Participant 2). Followed by Participant 3 "It seemed important for it to be respected and recognised...." and "...people in GCC expect a certain level of, let's say respect." (Participant 4).

Respect in the MENA region is often implied and inferred by the way you interact with customers. This is illustrated in the example shared by Participant 4 "...taking a vegetarian to a steakhouse for a meeting. You know, you're kind of then taking the person to a place which is against their beliefs...that emotional response, you're not respecting me. You're taking me somewhere that, you know, I'm uncomfortable with.... Especially when you're working with some of the countries in the GCC, such as Saudi, Qatar, Kuwait, which are still quite strict with the way things work, it makes a big difference..." (Participant 4).

In the MENA region, particularly in Arab culture, there is a strong emphasis on hierarchy and status (Alsharif et al., 2019). The research results support this view with both groups of respondents highlighting this viewpoint. "Now it is very hierarchical. You will find more closed office policies compared to, rather than open office policy, which means that. It's not easy for everyone, for example, to go and just speak to the CEO... you need to follow the chain of command, let's say. It is more of focusing on the status." (Participant 9). and "...would want to meet people either of the same hierarchy or status, they don't

want to interact with people or they don't need to have a meeting they feel with anyone that's lower than that. So that does play a factor..." (Participant 4).

Both sets of participants further emphasised that collaboration is an important key factor to building strong relationships, with Participant 2 stating that *"...We both share the responsibility also when the business is not performing very well, what we can do together, it is not what can I do, it is what we do together..." (Participant 2).* With Participant 2 then highlighting the importance of reputation *"...The reputation of the people that they work with, this is very, very important... People care a lot for reputation, so they are going to take decisions to the extent that they might take decisions even at the cost of losing some profits just to protect the reputation..." (Participant 2).*

6.3.9 Cultural Considerations

Respect for the local culture is of paramount importance and cultural sensitivity is an integral part in the continuum of cultural competency (Alsharif et al., 2019). An important insight to understanding culture involves recognising the visible, explicit and observable aspects of culture such as norms and practices (Obeidat et al., 2012). The findings of this research demonstrated that both sets of participants underscored the importance of cultural considerations and identified the key themes in the context of building psychological contracts: cultural sensitivity, cultural expectation and religious sensitivities.

The results of the study found that the importance of culture and value system in the Arab world cannot be overstated and hold profound importance. Both research groups presented culture in the Arab world are significantly distinct from other cultures. Participant 10 places in the spotlight this distinction stating in his own words *"...once we received this, you know, general manager who has come working from Europe which is very used to pounding on the distributors, right? Because if you don't do your sales from next month, you're not going to be my distributor anymore. I will not give you a single unit. He brought the same mentality here in the Middle East... Ten days down the line, the gentleman was gone because this is not how you can treat your distributor like a vendor selling vegetables..." (Participant 10).* This is in congruence with Abi-Raad's (2019) viewpoint that Arab culture emphasises discussions and people are inclined to display humility when conducting business. In a collectivist society such as the MENA

region Arab world, the importance of empathy is social networks and having empathy are significant (Shaalan et al., 2022), and as Wier et al. (2019) states: “Empathy is important to establish relationships and build trust before doing business.” Therefore, the Western autocratic management style applied in these contexts falls short of being optimal against Arab societies’ core values of hospitality, generosity, courage, honour, humility and mutual respect (Ismail et al., 2022).

6.3.10 Cultural Sensitivities

The research results indicate a shared perspective among both participant groups emphasising the importance of cultural sensitivities such as attentiveness, courtesy, Arabic cultural traditions and gift exchanges (Marzouki, 2020) strongly impacting behaviour and habits of society (Abi-Raad, 2019). Supporting this academic finding Participant 3 stated in his own words *“In the Middle East, this is if you don't give something to the clients... if you don't really... show the client your generosity by taking him in a good place to discuss”* (Participant 3). Another participant stated that *“some women in the Middle East want to shake your hand. Others want to tap their hearts, you know, and we have to understand... we have to try and read the signals* (Participant 11). The study results echo Abi-Raad’s (2019) research stating that politeness is part of Arabic values which aligns with Participant 11’s statement that: *“...being nice to people. But it's not a, it's not a moral obligation as it is in in the Arab world”*. (Participant 11).

Gift-exchanges and souvenirs are a tradition and a significant aspect of social behaviour in Arab countries (Marzouki, 2020). It is of great importance to acknowledge and recognise the central role that religion plays in gift-exchanges such ‘Eid al-Adha’ (Feast of the Sacrifice), which is celebrated by the Arab world through the exchange of gifts (Barakat, 2021). Participant 1 highlights this by stating: *“souvenirs, invitations... casual dinner... It's all about normal for this country... they're looking for a warm hospitality in everything every minute. You have to show care... You have to give him a present... Give them a free invitations or even any free item of your product. The feeling that you put him in a special place.”* (Participant 1)

6.3.11 Cultural Expectations

There is a shared notion by both sets of participants that explicitly place a spotlight on the subtle implicit expectations or a set of unspoken rules “the Doxa” as referenced by

Veissière et al. (2020), that people in the region have. There is an expectation of treating customers with luxury dining as highlighted by Participant 4 *“I’ve had cases where they’ve complained back saying that they were really unhappy with the event because let’s say the car was not up to their standards or. Sorry, the hotel stay was not up to the standard and you know they don’t. They don’t feel appreciated because of that”* (Participant 4). Participant 8 reinforces that deals are not done in the boardroom but around *“lunch tables”*. Participant 11 expands on the unspoken expectations in the region *“They might expect that you’re there three days a week. They might expect that they invite the distributor back to their family. They may expect gifts, they may expect all kinds of things...”* (Participant 11), and *“...it could be that someone in the Middle East says they’ll work on it. And in the West, we think that that’s going to take a day and in the Middle East it would take a month.”* (Participant 11)

6.3.12 Religious Sensitivities

Shaalán et al. (2022) states: “In the Arab world, religion is a guide to action, as it determines action in every aspect of people's lives.” Researchers further explain that in Islamic societies, perspectives and behaviours are deeply influenced by religion and drawn from the teachings of Islam (Shaalán et al., 2022). The primary foundation of the Islamic law is based on the Quran and Hadith forming the cornerstone of their culture and faith (Usman et al., 2017). As a result, in the perspective of Islamic principles, trustworthiness is a fundamental characteristic of a Muslim (Usman et al., 2017). In this respect participants have shared the following: *“...So these are Islamic countries. They go by the Sharia law and the cultural awareness is very, very important. If you do see a lady of Islamic faith, who is, you know, probably one of the locals from the country, you do not go into a meeting and extend your hand because women will not shake your hand. It is it is not allowed by their religion.”* (Participant 5).

Participant 6 offered a nuanced perspective to the importance of religious sensitivities in this region noting that Islamic faith strictly prohibits gambling activities. *“...gambling is prohibited...They’re not going to take risks... there are certain practices... which it’s very, very difficult to get to terms with in a western sense.”* (Participant 6). In Islam, gambling is strictly forbidden, it’s absolute and indisputable (Ahmad et al., 2019). The Quran refers to the word “Maisir” which is a literal translation of the word “gambling” and is often defined in academic literature as a bet of some kind that is characterised by

uncertainty or risk as in not knowing if something is to take place due to the element of uncertainty (Mohd et al., 2023)

The prohibition exists as it is seen as the unjust consumption of people's wealth, and it is considered as an easy acquisition of wealth that is largely decided by chance with little effort or fatigue (Mohd et al., 2023). Jobst & Solé (2020) state that Islamic finance principles mandate that one should have a clear and ascertainable understanding of return on investment to avoid uncertainty, unpredictability and unclear obligations. Business transactions that are characterised as high-risk and uncertainty are not allowed by Islamic faith (Jobst & Solé, 2020). Almutairi et al., (2020) draw on this note and present the MENA Arab region as risk-averse, supporting Geert Hofstede, renowned Dutch psychologist and researcher of cross-cultural communications, views that the element of uncertainty avoidance or lack of tolerance to ambiguity is a key cultural dimension of the Arab speaking region.

Interestingly consistent with the theory, the participants' representing Western MNEs have directly accentuated that Arabic culture is informed by religion as in the direct words of Participant 3 *"culture is informed by religion..."*. However, participants representing the local partners in the MENA region had not mentioned religion explicitly but did highlight the importance of cultural respect, with all participants highlighting that respecting others is fundamental to personal relationships with participants stating: *"respect is very, very important."* (Participant 2), *"...It seemed important for us to be respected and recognised..."* (Participant 3) *"...you have to show respect..."* (Participant 5). These statements mirror the academic literature presenting that within high-context cultures, meaning is inferred and implied rather than explicitly stated.

6.3.13 Research Findings: Major Difference

The findings drawn presented one major and profound distinction between the MENA local partners and Western MNE participants. The MENA local partners foregrounded "Emotions" as a central key theme and attribute that impacts psychological contracts. In contrast the Western MNE participants accentuated "Political Structure" as one of the major key themes, spotlighting the institutional frameworks and the essential role of governance in the MENA region. This distinction marks a significant conceptual variance in priorities of the two groups examined.

In congruence with the observations made by Sim (2023) the participants representing the Western MNEs underscore the prevalence of monarchies in the MENA region as of major importance and a key factor to consider when entering the territory. Interestingly, the local participants representative of the MENA region focused more on the importance of emotional connection between partners. This finding is illuminating when revisiting Barsness (2018) who accentuated and argued the importance of the relationship between tribes and the monarchies and to achieve this equilibrium, the formation of close relationships is pivotal. Barsness (2018) continued this theme and presented the significance of close relationships in the political space as instrumental in the decision-making process. This is evident in that the local partners representing the MENA region were discussing the importance of emotional and personal relationships.

Shalan et al. (2022) argue that emotions play a crucial role in business relationships and that when emotions are part of the business transactions they lead to “moral obligation” among partners. Participant 11, representing the MNE’s region states: *“...There's lots of cultural elements within the Arabic culture, for example, that we don't have in the West. We don't have that type of obligation. Sometimes we live up to being nice to people. But it's not a, it's not a moral obligation as it is in in the Arab world.”* (Participant 11). This discrepancy is the most compelling notion and noteworthy for research in understanding the implication of the divergent focuses providing insights into these disparities.

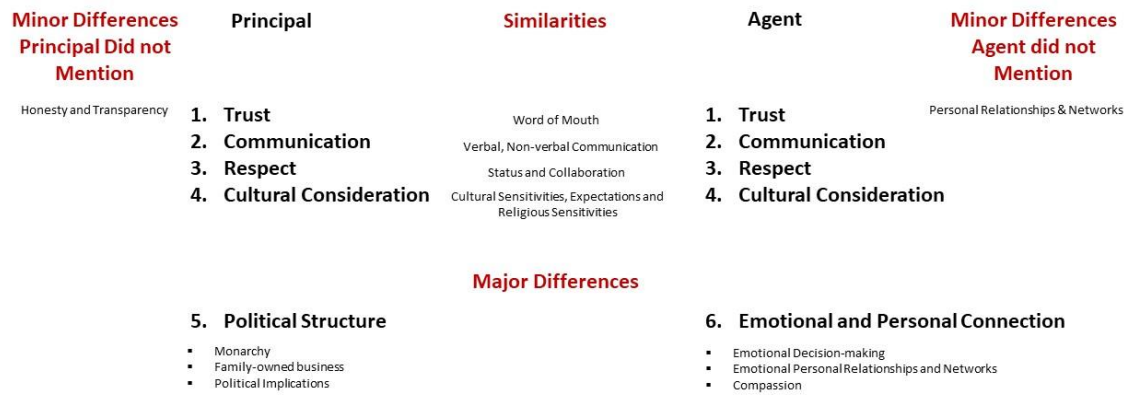


Figure 6

6.4. Research Question 2 Discussion

The second research question of this study was: understanding the key factors that contribute to enhancing psychological contracts. These recommendations were provided in Chapter 5 Figure 6. The findings represent some similarities. The findings can lead to several conclusions about the application of psychological contracts to the principal-agency theory and building long-term strong business relationships.

6.4.1 Conclusions of RQ2

The research presents a strong alignment between collectivist societies, high-context cultures, collectivism, emotional trust and uncertainty avoidance.

RQ2: What are the key factors that would contribute towards the enhancement of the psychological contract between MNE's and independent distributors?

The local MENA region representatives presented four major key factors that they believe would enhance psychological contracts; honesty and transparency, cultural training, hiring staff from the MENA region and respecting the local value systems in the region. By comparison, the Western MNE representatives added a few more factors to the list including specific market understanding, cultural religious understanding,

political understanding and the importance of building strong personal friendships in the region.

6.5. Conclusion

In this chapter a comprehensive integrative model was established to gain insights into the data and presented the facilitating factors that influence business relationships between non-equity Western and Middle East channel partners. Six key major themes namely trust, communication, respect, cultural considerations; emotional and personal connection, and political structure were synthesized and compared with academic literature and presented as necessary to achieve positive psychological contracts. The insights collected were from a total of 13 participants, five local MENA region representatives and eight Western MNE representatives who provided extensive insights into the culture, value systems and traditions of the Middle East North Africa Arab society.

Chapter 7

Conclusion

7.1 Introduction

The aim of this research was to investigate and explore the influence of psychological contracts on the relational business connections between Western Multinational Enterprises and the Local MENA region non-equity agents that extends beyond the traditional formal agreement. Secondly, and equally important, the subsequent objective of the study was to understand how psychological contracts can be enhanced between Western multinationals and local channel partners in Middle East North Africa Arab speaking world.

Business relationships are the cornerstone to commercial exchanges particularly in international global economic transactions which marks an even greater significance in the intensifying global interdependence with Arab nations (Almutairi et al., 2020). Managing business relationships between Western and Eastern counterparts is fundamental for foreign investment, resource exchanges and global economic stability (Abosag et al., 2021). Former studies have presented the concept of culture as fundamental and key factor that impact business relationships (Almutairi et al., 2020). Abi-Raad (2019) states that culture impacts perceptions and behaviour. As such the study of psychological contracts is a fundamental for deepening our business relationships particularly between principals and agents (Zhang & Zhang, 2021)

This chapter summarises the key findings and insights gained during this research, provides recommendations for organisations, study limitations and implications for future research. Lastly, a brief overview of the research journey, study the application is presented.

7.2 Research Background

The principal agent theory is commonly paired with the principal agent problem presenting both the principal and the agent as self-serving and opportunistic with little alignment and support between the two partners (Ceric & Ivic, 2021; Bergestuen et al., 2022). Researchers have primarily focused on contractual agreements (Dolphin, 2022; Schillemans & Bjurstrøm, 2019) to address the principal agency problem and have left

psychological contracts largely unexplored within the principal agency model for non-equity networks. This research has borrowed the concept of psychological contracts from the lexicon of Human Resource Literature and applied this concept to the agency theory. In response to Ceric & Ivic (2021) principal agency problem, the study aims to bridge this gap and therefore to answer two fundamental and primary questions:

RQ1: How do psychological contracts affect the relationships between MNEs and independent distributors?

RQ2: What are the key factors that would contribute towards the enhancement of psychological contract between MNEs and independent distributors?

In response to the principal agent theory problem presented by academics and researchers within international business. The West and Middle Eastern North Africa (MENA) nations served as the stage for this research. A qualitative exploratory study was undertaken of 13 interviews to understand how psychological contracts impact business relationships and what aspects would enhance the psychological contracts between Western and Eastern business partners.

7.3 Synthesis of Principle Findings

Findings from the study give credence to the need to explore psychological contracts within the principal agent theory and to help address the principal agency problem characterised by academic researchers as misalignment of interest, information asymmetry, risk aversion, and moral hazard which has resulted in strained relationships and failure of internationalisation strategies for many companies. The MENA region has the world's largest reserves of oil and natural gas and serves as a strategic geographical bridge between Asia and Europe (Abedi, 2015) and is home to 350 million consumers (Almutairi et al., 2020). This signifies the dramatic importance on international strategies, policies and business relationships (Abedi, 2015).

The findings of the research characterise the contemporary MENA Arabian region as a high-context (Barkai, 2008), power distance, collectivist society (Usman et al., 2017) with deep religious influence that shape culture, social norms, the economic and political landscape. In such contexts, understanding the significance of the cultural characteristics such as risk aversion, loosing face, word of mouth and deep personal

relationships within the context of Islamic teachings and how it is intrinsically linked to the business culture and practiced norms plays a foundational role in understanding how to engage and create a favourable business environment.

Given the nature of psychological contract manifesting themselves within each individual mental cognitive constructs based on perceived premises they are inextricably related to high-context, collectivists societies' due to the heavy degree of reliance and emphasis on implicit communication, non-verbal cues, beliefs and perceptions of building trust and long-term deep personal relationships.

While research findings presented shared perspectives of four key factors impacting psychological contracts namely; (1) trust, (2) communication, (3) respect and (4) cultural considerations. The findings presented minor variations in intended meaning that were not entirely consistent. When discussing trust, personal relationships and networks were highlighted by the Western MNE's but not discussed by the local MENA partners. Similarly, the MENA local partners engaged in discussions highlighting the profound importance of honesty and transparency to building trust. The most significant and greatest contrast in the findings emerged as the local MENA region representatives prioritised emotional and personal connection as a critical factor to building strong psychological contracts while the Western MNE's respondents presented the need to understand the political and legal structure of the country. The perspective of the Western MNE's is that the understanding and staying informed of the political dynamics is an essential part of interaction with customers in the region. The example presented was Lebanon, a country that is divided and hence it is important to know the political dynamics in order to ensure that one does not make offensive or negative comments that could lead to conflict or misunderstanding.

This indicates that Western multinationals require a deeper understanding of the essential aspects of trust building and psychological aspects impacting relationships. This fundamental difference in interpretation may be the vehicle and crucial component that could potentially lead to misunderstandings and impact the success of Western internationalisation strategies. In such a context, international enterprises entering the MENA region must demonstrate understanding of the aspects of avoiding conflict and misunderstanding.

7.4 Theoretical Contributions

To attain deeper insight into the condition in which strong alliances and commitment is build, it is fundamental to consider the impact and forming mechanism of psychological contracts. Psychological contracts hold significance and severe consequences in the maintenance of relational relationships which is of paramount importance particularly in Middle East North Africa (MENA) region where business customs, traditions, values are considerably different when compared to the Western region (El Jurdi & Houjeir, 2020). This research extends the principal agent theory by including psychological contracts to the agency model presenting psychological contracts as equally fundamental if not holding superior significance compared to formal agreements. This is supported by research finding's where participant 11 stated: *"Their word is their bond. A handshake is the deal in itself, because that's the way that it's functioned for hundreds of years, if not thousands of years.. in many ways, by showing them a written contract it may be seen as defensive"*.

The current principal-agent model presents formal agreements as the fundamental concept upon which relationships are established steered between a principal and an agent.

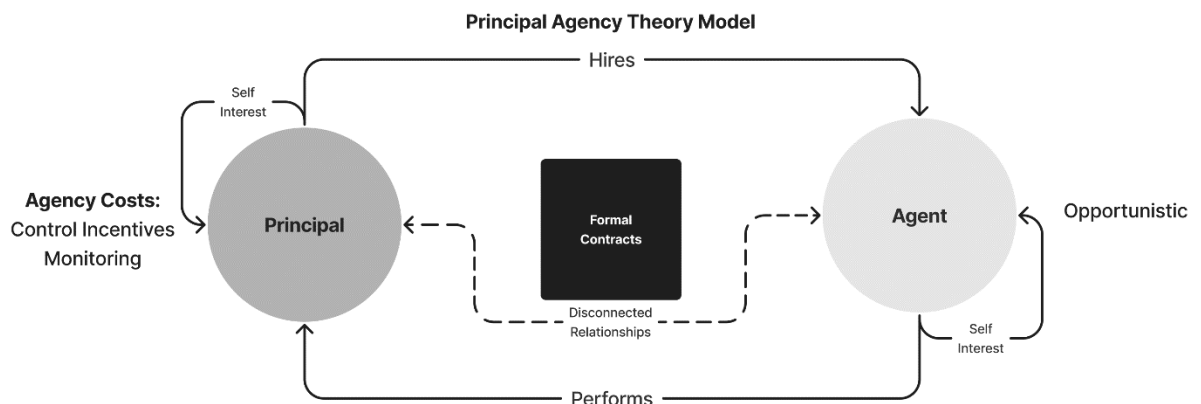


Figure 7

The new principal agency-model therefore presents a comprehensive and integrated approach in pursuit of building strong personal relationships incorporating both formal and psychological contracts.

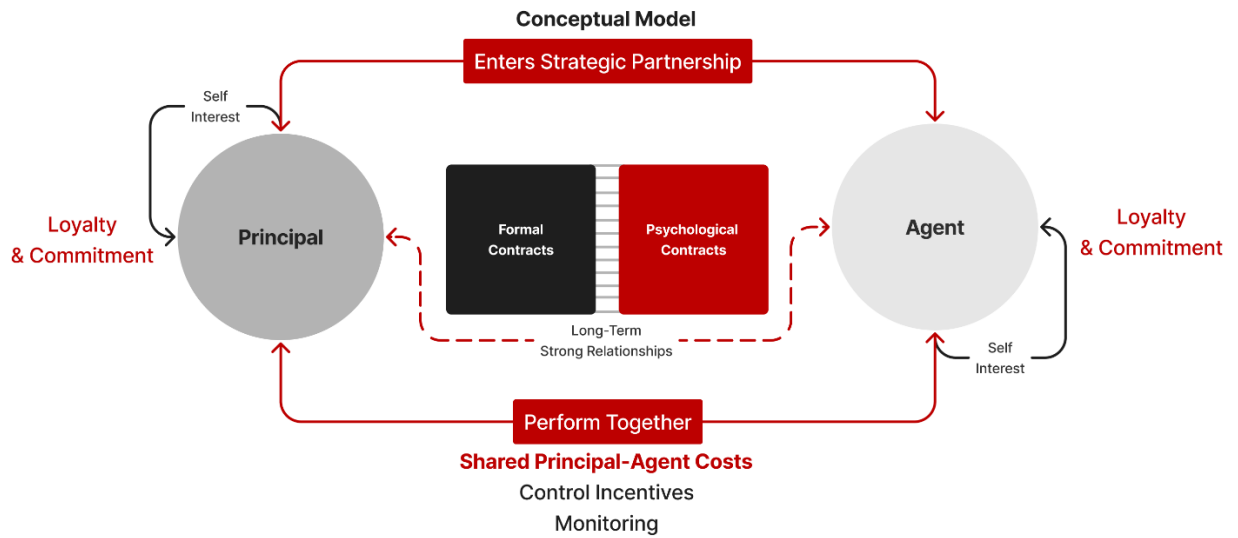


Figure 8

7.5 Recommendations for Management

The findings of this research carry substantial implications and practical recommendations that can be applied to improve the business relations between Western MNE's and their independent non-equity channel partners in the Middle East North Africa region. There are five key takeaways that can be applied to nurture psychological contracts between partners and act as a competitive advantage for internationalisation strategies.

- 1) **Strategic Collaboration:** The research results characterise the MENA region Arab world as a risk averse society with a low tolerance to risk due to the Islamic principles and Sharia law (Jobst & Sole, 2020; Almutairi et al., 2020). Avoiding interest (Riba) and high risk investments are in line with Islamic principles and ethics (Jobst & Sole, 2020; Almutairi et al., 2020). As such the concept of strategic collaboration and risk-sharing forms a natural strategic fit for the region and aligns with the concept of profit and loss sharing. Western MNE's may strategically collaborate with local MENA region partners through sharing costs for projects, human resources and share best practices and processes. This will be viewed positively in this region to share risk, profit and loss sharing and drive transparency between partners.

- 2) **Policy Adaptations:** Western MNE's need to customise their internal processes to align with the characteristics and distinct traits of the MENA region.
- 3) **Cultural Sensitivity Training:** the findings of the study suggest that business strategists should recognise the cultural and religious sensitivities of the MENA when doing business. Stakeholders assigned to support channel partners in the MENA region should complete a cultural sensitivity training.
- 4) **Build Personal Relationships and Networks:** the findings of this study spotlight the importance of building personal relationships with channel partners, influential figures, and government in these regions due to the tight-knit networks in these emerging markets. Building personal relationships would facilitate trade, investment, and economic co-operation.
- 5) **Hire Local Staff:** It is recommended that Western MNE's hire local staff that understand the culture, language and have the expertise to leverage connections.
- 6) **Corporate Social Responsibility:** CRS is profoundly important not merely as a philanthropic gesture but fundamentally as an opportunity for Western MNE's to seek and uncover the concerns and needs of the country and authentically support that cause to make a positive impact on society. Align company's expertise and leverage core competencies for the common cause in order to position in the market as the experts in the field. This further raises the profile and identity of the company
- 7) **Measurement of success:** Western MNE'S are recommended to implement measures focused on quality and length of relationships rather than solely measuring sales targets.
- 8) **Leadership:** MNE's must strategically select senior management and executive directors to effectively navigate this region recognising and adapting to the prevailing culture of power distance.

7.6 Limitations of the Research

The study presents various constraints that could serve as avenues for subsequent investigations.

The decision to target business leaders with practical experience and deep understanding of the MENA region and international trade therein was purposeful as they were deemed most likely to contribute to the research. This presents the primary limitation of the study as sourcing qualified leaders and executives to accept the

invitation and share their experiences for the study. Another limitation is that external validity of the study could not be ensured due to its qualitative nature and low generalizability as participants were not randomly selected. Additionally, the Participants' understanding or interpretation of the interview questions as they were presented may have affected results.

Another limitation is geographical access to the region, with the focus only on a few emerging markets in MENA. Generalisations will be made based on these markets despite the MENA region encompassing a wide array of countries each with their own unique socio-economic, political, and cultural landscapes. Inability to access all countries may limit this study's capacity to interpret country-specific nuances in the otherwise diverse cultures which represent the MENA Arabic-speaking region. This reinforces Hofstede's observations that the MENA region is not homogeneous, although commonalities in social norms, ethic and demographic profiles exist, the MENA region is highly diverse (Almutairi et al., 2020).

The third limitation to this study is the researcher's relatively confined network of potential respondents. A confined network potentially creates a bias of responses or experiences as participants may share similar perspectives and industry practices due to their interconnectedness and common professional circles. Additionally, a limited network may not have the reach to assess a wider array of organisational settings, partnership structures, or industries, therefore limiting this study's potential to draw on more encompassing conclusions regarding the effect of psychological contracts between dynamic business partnerships in the region.

A fourth limitation to this study may be the exclusive participation of male respondents which may introduce a gender bias with respect to psychological contracts. In high context cultures such as those found in the MENA region the absence of female respondents may exclude potential gender-related nuances in the interpretation of psychological contracts between Western and MENA business partners. Gender potentially affects communication, tactics, and relational dynamics between parties and therefore the psychological contracts between them.

7.7 Recommendations for Future Research

There is an ongoing need to further explore new or expand models of psychological contracts within the context of principal agent-theory.

- This study provides a base for comparative studies in other countries that have uncertain environments, such as the psychological contracts that affect business relationships between South Korea and the Middle East North Africa region and how these risks could be mitigated to develop long-term, trusting relationships. One example of the differences in culture is that Korean businessmen would often go for a drink to build long relationships, whereas drinking alcohol is prohibited in Arab speaking countries.
- Future research could focus on what the meaning of trust is to both Western and MENA cultures and how this might be different in quantitative analysis. The trust multiplier question that could be tested for future research.

**Trust X Communication X Respect X Cultural considerations= Positive
Psychological Contracts**

- With Arab culture in mind, it is important to recognise that not all interactions with people in the Arab world would follow such a collectivism orientation.

7.6 Conclusions

The purpose of this exploratory qualitative research was to understand and learn about the impact of psychological contracts on building strong business relationships between Western and Middle East North Africa (MENA) region channel partners, that acts as a competitive advance in internationalisation strategies and brings a unique perspective to the principal-agent theory. At present, Western business leaders find themselves confronted with many of the various core principals and idiosyncrasies of the Middle East North Africa region as they seek to enter and navigate the local business landscape. It is essential to understand the connection between Islamic traditions and the impact spanning across social, economic, political and business spheres in the Arab region and how this interconnectedness impacts implicit understanding between individuals and thus psychological contracts. These challenges underscore the

importance of cultural sensitivity and adaptability when building strong relationships and conducting business in the MENA region.

Adjustments and flexibility from Western companies is necessary and must include the adaptation of communication, behavioural sensitivities to local peers and addressing aspects of risk adverse and face-saving culture. To conclude there is a growing and essential demand among scholars, business and governments to advance the management research within the Arab world given its significance to the global economy (Elbanna et al., 2020).

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Appendix A

Research Study Consent Form

Research Study Consent Form

I am currently a student at the University of Pretoria's Gordon Institute of Business Science and completing my research in partial fulfilment of an MBA program. I am conducting research on understanding the psychological contracts that affect business relationships between multinational enterprises and their appointed independent local distributors in Middle East and North Africa Region. Our interview is expected to last an hour and will help us understand how multinational enterprises navigate business partnerships in Middle East as part of their internationalisation strategy. **Your participation is voluntary, and you can withdraw at any time without penalty.** All data will be reported without identifiers. If you have any concerns, please contact my supervisor or myself. Our details are provided below.

Researcher name: Sorina Chomse

Email: 21829234@mygibs.co.za

Phone: +27 73 814 0647

Research Supervisor Name: Jefferson Yu-Jen Chen

Email: chenj@gibs.co.za

Phone: +27 11 771 4000

Signature of participant: _____

Date: _____

Signature of researcher: _____

Date: _____

Appendix B

Approved Ethical Clearance

**Gordon Institute
of Business Science**
University of Pretoria

Sorina Chomse <21829234@mygibs.co.za>

Ethical Clearance Approved

1 message

Masters Research <MastersResearch@gibs.co.za>
To: "21829234@mygibs.co.za" <21829234@mygibs.co.za>
Cc: Masters Research <MastersResearch@gibs.co.za>

28 July 2023 at 12:44

**Gordon Institute
of Business Science**
University of Pretoria

Ethical Clearance Approved

Dear Sorina Chomse,

Please be advised that your application for Ethical Clearance has been approved.
You are therefore allowed to continue collecting your data.
We wish you everything of the best for the rest of the project.

[Ethical Clearance Form](#)

Kind Regards

Appendix 3
Interview Guide

Questionnaire: For Local Distributors and MNE's

| | |
|--|---|
| | INTRODUCTION |
| Region and brief overview | <ol style="list-style-type: none"> 1. Please tell me about the structure of your organisation. 2. Where are you based? 3. What regions do you support? 4. Please tell me about your responsibilities. |
| | I. UNMET PSYCHOLOGICAL EXPECTATIONS |
| How do psychological contracts affect the relationships between MNEs and partners ME? | <ol style="list-style-type: none"> 1. In your experience do psychological contracts affect the relationships between MNE's and their resellers? 2. If so how so, if not why not? 3. In your experience describe some of the possible outcomes if psychological contracts are not accounted for? |
| | II. FOSTERING PSYCHOLOGICAL CONTRACTS |
| What are the key factors that would contribute towards the enhancement of psychological contract between MNE's and independent distributors? | <ol style="list-style-type: none"> 4. What are the key factors that will contribute towards enhancement of psychological contracts from an individual perspective? 5. What are the key factors that will contribute towards enhancement of psychological contracts from a company perspective? 6. What are some of the business practices in Middle East region? |

Appendix 4

Summary of Coded Themes and Code Count

| | LOCAL PARTNERS Gr=152; GS=7 | WESTERN MNE Gr=203; GS=8 | Totals |
|--|--|---|---------------|
| Communication Gr=65; GS=3 | 50 | 30 | 80 |
| Cultural Considerations Gr=130; GS=4 | 74 | 78 | 152 |
| Emotional and Personal Connection Gr=104; GS=4 | 70 | 55 | 125 |
| Political Structure Gr=39; GS=3 | 4 | 36 | 40 |
| Respect Gr=67; GS=4 | 46 | 35 | 81 |
| Trust Gr=114; GS=5 | 61 | 71 | 132 |
| Totals | 305 | 305 | 610 |