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**Favor Reciprocity, Innovation, and Inefficiency: The Double-edged Sword of
Business-to-Business Wasta Relations**

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Favor Reciprocity, Innovation, and Inefficiency: The Double-edged Sword of Business-to-Business *Wasta* Relations

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ABSTRACT

Purpose – The purpose of this study is to empirically investigate the dark side of business-to-business (B2B) relationships in traditional business practices worldwide that rely on strong networks.

Design/methodology/approach – This study applies a questionnaire survey to collect data from buyers in 224 Kuwaiti firms and uses the partial least squares structural equation model for data analysis.

Findings – Drawing on the social exchange theory, we test the relationships between B2B *wasta*, relationship satisfaction, innovation, and efficiency. The findings show that despite the belief that *wasta* brings long-term benefits when applied in B2B relationships, it negatively impacts the firm's efficiency.

Originality – The study contributes to the existing literature on B2B relationships by identifying important issues related to the multifaceted nature of B2B *wasta* relationships. The study confirms the importance of relational and innovation benefits over economic consequences based on elements of social exchange theory (SET), which extends our current understanding of the application of SET in B2B *wasta* relationships.

Keywords *Wasta*, Business-to-business relations; Kuwait; Social Exchange Theory

Paper type Research paper

1. Introduction

Defined as a social contract between group members (typically a tribe) who provide reciprocal favorable treatment (Barnett, Yandle, & Naufal, 2013), *wasta* is a common phenomenon across the Arab-speaking countries in the Middle East and North Africa (MENA) region. Since Arab society is classified as a collectivist society, forming long-term networks with partners is considered the key to a successful business in the region (Abosag & Ghauri, 2022). The seminal work on *wasta* was undertaken by Cunningham and Sarayah (1993) in their book *Wasta: The Hidden Force in Middle Eastern Society*. Since then, there have been some studies on *wasta* networks. Like *guanxi*, *wasta* relationships have their roots in the membership of a group (tribe) that cares for the interests of the members. Individuals demonstrate their loyalty to the group by doing favors and expect others to return the favor when needed. This reciprocal arrangement promises long-term returns and benefits. As such, *wasta* is seen as a way of circumventing bureaucracy and fast-tracking activities. However, many in the Arab world view this practice negatively. Still, it is widely practiced in society and business in the Arab world.

However, the literature on *wasta* remains fragmented and criticized for limited theoretical rigor (Ali & Weir, 2020). In particular, little is known about its multifaceted impact on B2B relationship outcomes. The dark side of business-to-business (B2B) relationships has emerged as a critical issue in the marketing and supply chain literature (Noordhoff, Kyriakopoulos, Moorman, Pauwels, & Dellaert, 2011; Villena, Revilla, & Choi, 2011). Topics such as power imbalance, partner opportunism, information asymmetry, and parties feeling trapped in an unfulfilled partnership are some of the dark sides of B2B relationships that can negatively impact a firm's social and economic standing (Abosag, Yen, & Barnes, 2016; Grandinetti, 2017) but overlooked by existing research. Likewise, despite growing studies focusing on the dark side of B2B relationships worldwide, extant research is largely silent on such issues in business relationships formed using cultural, traditional, and indigenous forms

of social networks. While some studies have discussed the characteristics of *guanxi* networks in China (Lee, Tang, Yip, & Sharma, 2018), other types of social ties have been largely ignored. Extant literature argues that in many emerging economies where formal institutions are still in their infancy, informal institutions such as business networks are used to undertake social and business activities (Peng, 2003; Peng & Luo, 2000). However, little is known about how *wasta* works in B2B relationships and its multifaceted nature.

With studies on *wasta* in B2B relationships being limited (Berger, Barnes, & Silbiger, 2021) and the multifaceted impact of such arrangements not yet fully explored, we examine the multifaceted impact of *wasta* on innovation, relationship satisfaction, and efficiency. We ponder, since *wasta* and other indigenous social network relationships focus on forming strong ties, do B2B relationships under these arrangements result in innovation at the cost of efficiency? Accordingly, we address this issue by answering the following research questions: *What are the dark side elements of the B2B wasta relations? How is wasta related to relationship satisfaction, innovation, and efficiency?*

Specifically, we adopt the Social Exchange Theory (SET), widely used to study B2B relationships. We use data obtained from buyers in Kuwaiti firms and analyze them using the partial least squares structural equation model (PLS-SEM) to answer these questions. Kuwait is one of the world's largest oil exporters and an important contributor to the regional economy. Many studies on *wasta* have relied on student samples. By collecting data on *wasta* from businesses, we provide empirical evidence about its workings and the influence on B2B relationships. The findings of this study confirm the double-edged sword of B2B *wasta* relationships. In particular, increased innovation stemming from *wasta* relationships does not necessarily result in efficiency for the parties. These unique findings contribute to the literature on B2B relationships and SET application.

2. Theory and hypothesis development

There have been shifts in B2B relationships over the last few decades with a preference for fewer and closer long-term relations that go beyond the historic transactional nature of the interaction (Gil-Saura, Frassetto-Deltoro, & Cervera-Taulet, 2009). Trust and commitment are critical to maintaining B2B relations, especially during times of disruption and uncertainty (Cortez & Johnston, 2020). In intercultural contexts, the capabilities and dependencies of the resources are highlighted as antecedents of B2B relations. However, ethnocentricity and power effects are identified as having adverse influences on the relationship (Malik, Ngo, & Kingshott, 2018).

Reciprocity is a fundamental feature of B2B relationships and is based on people helping each other and not harming those who support them. It is assumed that by forming reciprocal relationships, firms create a social exchange that enhances trust between buyers and sellers and reduces opportunism (Liu, Deligonul, Cavusgil, & Chiou, 2018). However, there is a dark side to these reciprocal relationships. Tangpong, Li, and Hung (2016) argued that reciprocity can lead to an *ethical compromise*, where businesses feel a moral obligation to return favors or make questionable decisions in the hope of gaining future benefits. This issue is especially pertinent in *wasta* relationships, a long-held sociocultural practice in the Arab world, even though most people view it as unethical (Tlaiss & Kauser, 2011).

B2B relationships are initiated and negotiated by individuals representing firms (Hohenschwert & Geiger, 2015). However, in collectivist societies, these business relations are developed based on trust at the individual level and are maintained by these individuals over time. Therefore, these individuals are critical to the continuity of business relations. If these people no longer represent the organization, it could require resetting relations and building trust between the new individuals (Ghauri, Ott, & Rammal, 2020). Although the dark

side of B2B relations exists at both the firm and the personal level, previous literature has focused primarily on the former with little theoretical explanations for the relationship between individual actors (Chung, Wang, Huang, & Yang, 2016).

2.1. Social Exchange Theory

We apply the Social Exchange Theory (SET) to study the B2B *wasta* relationships between suppliers and buyers and test whether parties make compromises when making decisions and whether these result in the benefits they hope for. SET studies the social interaction between two parties that engage to achieve a beneficial economic outcome (Ali & Khalid, 2017). The quality of these social interactions is determined by the relationship between the parties and the nature of the commercial activity (Chang, Tsai, Chen, Huang, & Tseng, 2015). Strong ties between the parties can be observed when the relationship between the actors is strong, emphasizing long-term economic exchange (Johannisson, 1987). In contrast, if the relationship between the actors is poor and the emphasis is on short-term economic deals, the link has weak ties. Cropanzano, Anthony, Daniels, and Hall (2017) observed that parties exchange resources based on reciprocity, where one party's good or bad deeds are repaid by the other.

Lambe, Wittmann, and Spekma (2001) argue that while economic benefits are significant in business relationships, social rewards, such as sharing humanitarian ideals and satisfying emotional and spiritual values, can often be valued more. Previous studies suggest that individuals would have lower commitments when less attention is paid to forming social relationships in an organization (Kingshott, 2006). The resulting exchange would be economic-based, and the idea of mutual benefit would be diminished. However, organizations often enter relationships with different goals and expectations. Although some firms may be motivated by profit maximization, others may seek a long-term relationship with their supplier based on reliability and mutual trust (Doney, Barry, & Abratt, 2007). If one party is not satisfied with the relationship, they may explore new associations that view them as rewarding. Thibaut and

Kelley (1959) explained this behavior by looking at the social relationships at the comparison level and alternatives. The comparison level looks at the social and economic benefits that one receives from the current relationship against similar relationships formed with others. Hence, in a buyer-supplier relationship, if the buyer feels that the price they pay for the goods is high, they would be dissatisfied with the general relationship and seek alternatives that could meet their expectations. However, the other options must fulfill the economic benefit and satisfy the social needs of the relationship.

SET has been used extensively to study B2B relationships (Lambe et al., 2001). Specifically, the ideas of long-term ties and reciprocity are critical to our study on the outcomes of social exchange in business relationships (Cassia, Haugland, & Magno, 2021). However, reciprocity in social exchange models of inter-firm relationships has been overlooked. Recently, Voss, Tanner, Mohan, Lee, and Kim (2019) used a sample of firms in the Republic of Korea to study reciprocity in B2B relations and found that it positively influences information exchange indirectly through credibility and trust of benevolence.

Although the SET has been touted as having universal applicability in explaining social relationships, there are differences in applying social exchange models in cultures with different value orientations (Berger, Barnes, Konwar, & Singh, 2020). Social relationships and networks are considered essential in business activities in collectivist societies that tend to rely on informal institutions (Guo, Rammal, & Pereira, 2021). Many emerging economies have formal institutions that are still in their infancy and are evolving. Therefore, the implementation of rules and agreements may not follow the same formal processes as observed in developed economies. In such societies, long-term relationships are valued, and interpersonal trust relies on implementing formal agreements.

Social networks in society have been observed in many countries around the world and share similarities in the way they are formed, used, and maintained. *Guanxi* networks in China

have been widely discussed in the academic literature (Guo, Rammal, Benson, Zhu, & Dowling, 2018; Lee et al., 2018). Few studies have attempted to explore the characteristics of other culturally specific business networks such as *blat* in Russia (Michailova & Worm, 2003), *wa* in Japan, *inhwa* in Korea (Alston, 1989), *jeitinho* in countries where Portuguese is the native language (Smith, Huang, Harb, & Torres, 2012a), *jaan-pehchaan* in India (Berger et al., 2020), and *wasta* in the Arab world (Weir, Sultan, & Bunt, 2019). However, there are limited studies on these forms of business networks, and in this study, we test how *wasta* influences B2B relationships in the Arab world.

2.2. Wasta relationships and their effect on innovation, relationship satisfaction, and efficiency

In the Arab world, *wasta* refers to a social contract between members of a group (typically a tribe) who provide favorable treatment (Barnett et al., 2013). The term *wasta* has roots in the word *waseet*, which translates to an intermediary (Cunningham & Sarayah, 1993). Hence, *wasta* was initially intended to act as a go-between two families or groups within a tribe to resolve differences or disagreements. However, over time, the application of *wasta* has evolved. Today, the practice extends beyond a tribe and family to include friends and acquaintances and is applied in government and business activities (Cunningham & Sarayah, 1993).

A key element of business in the Arab world is establishing connections and relationships (Berger, Silbiger, Herstein, & Barnes, 2015) to compensate for the underdeveloped institutional environment (Sidani & Thornberry, 2013). *Therefore, wasta acts as a form of social insurance that facilitates business activities. Furthermore, wasta can facilitate access to new ideas and insights from B2B partners.*

In contemporary economic settings, innovation is one of the essential expected outcomes of B2B relationships (Chai, Li, Tangpong, & Clauss, 2020; Crisafulli, Dimitriu, & Singh, 2020). B2B relationships are increasingly seen as domains of innovation rather than domains of good

exchange. As such, relational ties between B2B partners are considered one of the fundamental sources of innovation in B2B settings (Chang, Cheng, & Wu, 2012; Inemek & Matthyssens, 2013). This includes firms working together for social innovation (Crisafulli et al., 2020), sustainability innovation (Mariadoss, Tansuhaj, & Mouri, 2011), and process innovation (Chai et al., 2020). However, as Malik, Mahadevan, Sharma, and Nguyen (2021) explained, one of the dark sides of these relations is that cross-border B2B innovation is prevented from maintaining imbalance and power dependence in emerging economies such as India. According to the authors, innovation is discouraged by masking the actual ownership of the innovation, preventing innovation by the dominant organizational structures in MNEs, and institutionalizing innovation practices in MNEs (Malik et al., 2021). To address this trust deficit between firms, *wasta* can be utilized as a learning channel and platform for partners to foster their innovation. Unique insights and state-of-the-art resources dedicated exclusively to close *wasta* partnerships can bolster each party's innovative processes and outcomes. As one of the key tenets of social capital is exclusive access to innovative insights and know-how from network partners (Borgatti & Halgin, 2011), we argue that *wasta* is likely to be positively associated with partner firms' innovation in B2B relationships. The social relationships established through *wasta* can be used to receive and provide innovative ideas and solutions for connected individuals and parties. Therefore, we posit that

Hypothesis 1: B2B *wasta* relationships positively impact firm innovation.

Traditional social networking and work practices in the Arab world remain underresearched (Hutchings & Weir, 2006a; Whiteoak, Crawford, & Mapstone, 2006). Therefore, some studies have attempted to explain *wasta* by comparing it with other forms of social networks. Smith et al. (2012a) compared *guanxi*, *wasta*, *jeitinho*, and pulling strings by surveying university students and interviewing managers. They found that *pulling strings* is

typical but used infrequently in the United Kingdom, whereas *guanxi* is seen as typical and frequently used in China and Singapore (Smith et al., 2012b). *Jeitinho* is seen as moderately usual but less frequent than some other types of influence. In contrast, *wasta* is commonly used but is no more typical than other influences found in Arab society. Velez-Calle, Robledo-Ardila, and Rodriguez-Rios (2015) compared the features of *guanxi* and *wasta* and found similarities with the patterns of cultural artifacts found in Latin America called *compadrazgo*. Comparing *wasta* and *guanxi*, Hutchings and Weir (2006b) found that while *guanxi* adapts to internationalization, *wasta* remains traditional in its influence on business and social life.

In *wasta* relationships, members can seek and expect assistance from other members (Barnett et al., 2013), leading to trust. A higher level of trust is positively associated with commitment and satisfaction in business networks (Hadjikhani & Thilenius, 2005). Hence, it can be argued that the greater the trust in the relationship between the parties, the greater the satisfaction in the relationship between them (Khakhar & Rammal, 2013). Alwerthan, Swanson, and Rogge (2018) studied the relationship between *wasta* and personal satisfaction. They found that providing *wasta* was associated with higher levels of need satisfaction and decreased the level of distress felt by individuals. We predict that:

Hypothesis 2: The B2B *wasta* relationships positively impact firms' relationship satisfaction.

Although *wasta* is widely practiced in the Arab world and is accepted as the norm (Weir et al., 2019), there is widespread criticism about the practice encouraging nepotism and causing inefficiencies in the economy, and evokes negative sentiments. This perhaps explains why *wasta* influences decision-making in the Arab world, but the practice is not openly discussed (Sawalha, 2002). Furthermore, the issue of reciprocity and favor has been found to harm

individuals, with those receiving *wasta* found to have higher levels of psychological distress and felt lower autonomy, competency and relatedness (Alwerthan et al., 2018).

Despite these concerns about the negative aspects of *wasta*, the practice is embraced in business activities. *Wasta* is especially prevalent at the level of recruitment in government and business (Ezzedeen & Swierez, 2001). Mohamed and Mohamad (2011) surveyed Egyptian undergraduate business students about their perception of *wasta*-based hirings and found that the respondents discounted the competency and morality of these employees. Cunningham and Sarayrah (1994) argued that the hiring of people in jobs based on *wasta* can negatively influence the efficiency of a country.

Extending these arguments to the firm-level implications of *wasta* in B2B relationships, we argue that the efficiency of firms, simply referred to as cost reduction and improving the input-to-output ratio, could be affected by relying on suppliers on the basis of *wasta* relationships rather than on the basis of competency and merit. When buyer-supplier exchanges are seen as an extension of long-held personal *wasta* relationships rather than professional relationships based on objective criteria, such as lower-cost potential, firms are likely to witness their costs going up and efficiency going down. As such, in B2B relationships, where buyers and sellers may continue to have work relationships due to the obligations of reciprocity to each other, we predict that:

Hypothesis 3: B2B *wasta* relationships negatively impact the efficiency of firms.

2.3. Wasta relationships and the mediating role of relationship satisfaction

Most of the existing literature argues for the benefits or ‘bright side’ of managing B2B relationships. However, unrest in these relationships between buyers and sellers can lead to adverse outcomes and is commonly referred to as the ‘dark side’ of relationships. Abosag et al. (2016) summarize the literature and highlight relationship unrest, relationship burdens,

relationship stress, relational misconduct, and detrimental intentions as some of the dark side elements.

SET can explain how weak ties between B2B partners can lead to opportunism issues and negatively influence the sharing of knowledge and resources that may lead to innovation. However, research suggests that strong ties between partners can adversely affect business relationships, especially if there is an imbalance in the relationship or longevity (Abosag et al., 2016; Hurtak, Kashyap, & Ehret, 2022). The strength of the ties can cause partners to feel that they are locked into the agreement. Grandinetti (2017) classifies the literature and highlights these issues within two categories of the dark side: trap and secret. The trap is observed when the disadvantaged partner is aware of the problem but remains trapped in the relationship due to a power imbalance (Malik et al., 2018) and strong dependence. Information asymmetry, where one partner keeps a particular information secret, spoils the relationship (Grandinetti, 2017). Chowdhury, Gruber, and Zolkiewski (2016) found that role conflicts and ambiguity, opportunism, and power play as some of the dark side elements of relationships in B2B service networks.

However, these dark elements can also lead to bright side outcomes, such as goal achievement. Power plays between partners can mobilize resources and influence partners to achieve their objectives (Chowdhury et al., 2016). Fang, Chang, and Peng (2011) conceptualized how the dark side of relationships can positively moderate the relationship between relationship quality and relationship function. They find that relationship quality is positively associated with relationship function. This relationship is strengthened or weakened when the behavioral, structural and psychological tensions between the parties are balanced or imbalanced (Fang et al., 2011). Wang, Hampson, and Han (2020) examined the positive and negative consequences of the relationship closeness between salespeople and their business customers in a B2B sales context. They found that organizational and employee-level factors

influence salespersons' perceived relationship closeness, which, in turn, can result in positive (improved sales performance) and negative (increased salesperson passive opportunism) outcomes. According to Noordhoff et al. (2011), the dark side of the relationship can be reduced if suppliers lengthen the relationship, formalize the relationship, and ask customers to make relationship-specific investments. This can positively influence innovation when developing an embedded relationship with a knowledgeable customer. We test this relationship by hypothesizing that:

Hypothesis 4a: Relationship satisfaction mediates the positive link between B2B *wasta* relationships and firms' innovation.

Hypothesis 4b: Relationship satisfaction mediates the negative link between B2B *wasta* relationships and the efficiency of firms.

The hypotheses are illustrated in Figure 1.

***** Insert Figure 1 here *****

3. Method

3.1. Sample and data collection

Kuwait was selected for the research context. Located in the Middle East, with Saudi Arabia and Iraq as neighbors, Kuwait has a population of 4.1 million and is classified as a high-income country (The World Bank, 2020). The oil and gas sector accounts for 40 percent of the country's GDP and 92 percent of export revenues (OPEC, 2020). Kuwait gained its independence in 1961 after the end of the British protectorate (Global Edge, 2020). The country's economy has transformed, especially in the currency and financial sector. However, Kuwait faced an economic crisis in the 1980s (Al-Sultan, 1989) and a political crisis in the 1990s (Boghardt, 2017), which affected the development of formal institutions and slowed the pace of reforms. The Hofstede cultural dimensions study did not provide scores for Kuwait as a separate country.

Instead, Kuwait was pooled with Egypt, Lebanon, Libya, Iraq, Saudi Arabia, and the United Arab Republic under the label of “Arab countries” (Hofstede, Hofstede, & Minkov, 2010). Using the Arab countries’ scores, we expect that the elements of power distance, collectivism, and uncertainty avoidance significantly influence how society and business operate in Kuwait. Therefore, the membership of groups and social networks plays a central role in the conduct of business in the country. Although there have been calls for more studies on the Arab world (Zahra, 2011), limited attention has been paid to Kuwait. By studying *wasta* in B2B relationships in the country, we attempt to address this gap in the extant literature.

The participants for this study were identified through the Kuwait Chamber of Commerce & Industry (KCCI) website. The total population of registered firms with the KCCI is 15,000. The data collection phase was carried out in the first half of 2020. Due to the COVID-19 pandemic, it was not feasible to physically distribute the questionnaires. Instead, businesses were contacted by phone and email and invited to complete the survey online. In some cases, snowball sampling was used to reach some respondents. The survey questions were written in English and Arabic and used a seven-point Likert scale. The question sought responses about the relationship with their suppliers. One of the authors’ team members is a native Arabic speaker and checked the translations for errors. The survey questionnaire was uploaded to QuestionPro (<https://www.questionpro.com>), which supports hosting survey questionnaires in English and Arabic.

A common issue faced in collecting data in emerging economies is the low response rate (Harzing, 2006). The low acceptance problem among the respondents and the global pandemic exacerbated the challenge of collecting data in Kuwait. Several steps were taken to improve the response rate (Fox, Crask, & Kim, 1988). A detailed cover letter and clear instructions on how to complete the survey were provided. As discussed earlier, *wasta* is frequently used in society but not discussed in public. To address this concern, the cover letter

assured the respondents of complete anonymity and confidentiality and informed them that they could withdraw their participation from the study at any time. Follow-up reminder emails were sent to the respondents. As a result, 982 firms were contacted to complete the survey, of which 640 agreed to participate in the study. We checked for missing values in the responses and removed incomplete questionnaires. Therefore, we were left with 224 usable questionnaires. 85 percent of the respondents were male, with half of the sample completing an undergraduate degree and 36 percent of respondents had completed a postgraduate degree. Regarding the firms' size, 38 percent of the firms in our sample had up to 50 employees, 35 percent had between 51-100 employees, and the remaining firms had more than 100 employees. Additional tests were undertaken to ensure that the issues of common method bias and non-response bias were ruled out (Hulland, Baumgartner, & Smith, 2018). We applied a full collinearity approach to testing for common method bias. The analysis showed that all VIF values are lower than 3.3, indicating that they are free from common-method bias (Kock, 2015).

3.2. Measures and data analysis

The questions related to B2B *wasta* relationships were adapted from the scales developed by Berger et al. (2021) (Cronbach's $\alpha=0.81$). The sample question is "I feel a sense of obligation to this supplier's representative for doing them a favor." A single-item measure was used to test firm efficiency. The item measured whether embedded B2B *wasta* (social) ties influenced if businesses sought alternative relationships that may have economic benefits. Firm innovation was measured using the items identified by Noordhoff et al. (2011) and helped test the benefits of engaging in B2B relationships. This variable is designed as a formative construct with six items such as "My company has learned to do new or improved things about targeting and segmenting the market due to the relationship with this supplier." The relationship satisfaction variable was adapted from the scales developed by Berger et al. (2021) (Cronbach's $\alpha=0.88$). The sample question includes "We are very pleased with the working relationship

with this supplier”. Details of these measures are provided in Table 1. To reduce the potential impacts of other variables on firm innovation and economic efficiency, we controlled the influences of company size (Cohen & Klepper, 1996; Kafouros, Buckley, Sharp, & Wang, 2008; Statsenko & de Zubielqui, 2020). Companies are classified according to a dummy variable that includes the following two values: 0 for companies with employee numbers equal to or less than 100 employees; and 1 for those that have more than 100.

***** Insert Table 1 here *****

We applied the partial least squares structural equation modeling (PLS-SEM) technique to estimate the proposed model using empirical data. The research objective of this study is to examine the multifaceted impact of *wasta* relationships on relationship satisfaction, innovation, and efficiency. The variance-based PLS-SEM method is particularly suited for this study, as it is in the early stage of theoretical development and uses validated measurements (Gefen, Rigdon, & Straub, 2011; Hernández-Perlines, Moreno-García, & Yañez-Araque, 2016). Therefore, we first assessed the measurement models to ensure that the empirical data fit the proposed model. We then evaluated structural models to confirm the statistical significance of path coefficients in the model using a bootstrapping procedure (Hair, Hult, Ringle, & Sarstedt, 2017).

4. Results

4.1. Measurement model evaluation

We first evaluated the reliability and validity of reflective measurement models. The study’s proposed model has two latent variables with reflective measurement models (*wasta* and relationship satisfaction) and a single-item construct (efficiency). In this evaluation process, three items were removed due to the low outer loads of the indicator (Hair et al., 2017). The outer loads of the retained indicators are above 0.60, which is acceptable for exploratory

research (Hair et al., 2017). The indicator *relationsat3* (0.649) has the smallest reliability with a value of 0.421, while the indicator *relationsat1* (0.809) has the highest indicator reliability with a value of 0.654 (Table 2). The indicators in the reflective measurement models thus achieve satisfactory reliability.

Furthermore, reflective measurement models achieve composite reliability (the lowest value is 0.8), and the value of AVEs is above the required threshold value of 0.50, indicating support for the convergent validity of the reflective construct measures (Table 2). In the next step, we evaluate cross-loadings, the Fornell-Larcker criterion, and the heterotrait-monotrait ratio (HTMT) for the discriminant validity of the constructs. Table 3 shows that the cross-load of each indicator on its corresponding construct is greater than the cross-load of any opposing construct. Furthermore, according to the Fornell and Larcker criterion, the square root of the AVE of each construct is higher than its correlation with any other construct in the model (Table 4). We then checked HTMT and found that all HTMT values are lower than the threshold value of 0.85, and neither of the confidence intervals includes the value 1 (Table 2). In summary, all the criteria for the evaluation of the model have been met, which supports the validity of the measures.

***** Insert Tables 2, 3, & 4 here *****

The proposed model also includes a formative construct (innovation). Innovation was measured from six various aspects, including market targeting and segmentation, customer service, product positioning, and differentiation, generating ideas for other products, distribution of the products, as well as communication and promotion (Noordhoff et al., 2011), which captures the primary contents of this construct. The VIF value of each indicator in this formative construct is lower than the value 2, exhibiting no collinearity problems. We then examined the outer weight of each indicator and the outer loading of this formative construct

using correlation weights. The six indicators remain as the outer weights are significant (Hair et al., 2017) (see Table 5).

***** Insert Table 5 here *****

4.2. Structural model evaluation

Next, this study focuses on the structural model by evaluating the hypothesized relationship between the constructs of the PLS model. We started by examining the direct effects of *wasta* without accounting for the mediating effect of relationship satisfaction (Model 1). We examine the path coefficients and their p-values to determine whether the direct effects of *wasta* are statistically significant for innovation, efficiency, and relationship satisfaction. As shown in Figure 2, there is a positive and statistically significant relationship between *wasta* and innovation ($\beta=0.264$, $p<0.01$), supporting Hypothesis 1. In support of Hypothesis 2, a similar result was found in the interaction of *wasta* with relationship satisfaction ($\beta=0.292$, $p<0.01$). Furthermore, we noted a negative and statistically significant relationship with efficiency ($\beta= -0.225$, $p<0.01$), suggesting support evidence for Hypothesis 3. Putting these results together suggests that *wasta* has a significant impact on the business behavior of Kuwaiti firms.

***** Insert Figure 2 here *****

Furthermore, we investigated the coefficient of determination (R^2) to test the explanatory power of Model 1. This model shows that the R^2 values are 0.074, 0.051, and 0.085 for innovation, efficiency, and relationship satisfaction. Although these values do not look very large compared to the general rules of thumb used in some recently published work (e.g., Merz, Zarantonello, & Grappi, 2018), they are acceptable because the interpretations of the results depend on the research context (Hair, Risher, Sarstedt, & Ringle, 2019). Considering the context of our study, it is not expected that one construct (*wasta*) alone could explain a high level of variation in the three dependent variables.

We then examined Hypotheses 4a and 4b, which propose mediation effects of relationship satisfaction between *wasta* and the two economic outcomes (i.e., innovation and efficiency) (Model 2). We examined Hypothesis 4a by using the following steps. First, we checked the indirect effect (0.102) from *wasta* through the satisfaction relationship with innovation is significant ($p < 0.01$). Second, we found the direct effect from *wasta* to innovation is 0.160 and statistically significant ($p < 0.05$). Therefore, it concludes that relationship satisfaction partially mediates the relationship, showing partial support for Hypotheses 4a. We then examined Hypothesis 4b. The indirect effect (-0.108) of *wasta* through the relationship of satisfaction with efficiency is significant ($p < 0.01$). Second, the direct effect from *wasta* to efficiency is relatively weak (-0.116) and statistically non-significant. We conclude that relationship satisfaction fully mediates the relationship between *wasta* and efficiency, supporting Hypotheses 4b. These mediation effects are illustrated in Figure 3. Regarding the control variables, firm size does not significantly influence firm innovation (0.078) and economic efficiency (-0.034).

***** Insert Figure 3 about here *****

5. Discussion

Our study on buyer-supplier relationships confirms the multifaceted effect of B2B *wasta* relationships. SET explains how social relationships help parties develop trust and enhance their interaction, which leads to beneficial social and economic outcomes. For example, Berger et al. (2020) applied the SET to study the influence of the indigenous Indian networking system of *jaan-pehchaan*. They found that business performance could be enhanced (or efficiency achieved) by satisfying business relationships that enhance long-term relationships. SET also suggests that long-standing strong ties between partners could reduce the effects of relationship unrest.

In contrast to what SET suggests, we find that long-term embedded strong ties (*wasta*) negatively influence buyers' efficiency but are positively linked to business relationships and innovation. Existing literature suggests that *wasta*-based relationships can be inefficient and harmful to economic performance. The theoretical explanation provided by SET suggests that if a party is unsatisfied with the relationship, they seek alternatives (Thibaut & Kelley, 1959). This dissatisfaction could be related to the social and/or economic outcome of the relationship. Our findings show that buyers continue to work with existing suppliers with whom they share *wasta* relationships, even if other alternate supplier options provide economic benefits. It could be argued that the findings confirm the importance of relational and innovation benefits over economic consequences in B2B *wasta* relationships in Kuwait, and therefore alternatives are not sought.

The high score for uncertainty avoidance and collectivism in Arab countries may explain some of these findings. Developing secure social networks is central to how business is conducted in the Arab world, and this requires investing time in developing and maintaining relationships. However, there is a dark side to this social relationship that explains these interactions. The issue of reciprocity and the obligation to return the favor in *wasta* relationships forces buyers and suppliers to remain in a relationship. This dependency resembles the *trap* element of the dark side of B2B relationships identified by Grandinetti (2017). The disadvantaged party remains in the relationship due to societal expectations around one's obligations to the group.

Satisfaction with *wasta* business relationships can be explained by looking at the individual (actor) level. The expectations for reciprocity and favor are part of the burdens and stress of the relationship highlighted in the literature as the dark side of relationships. Alwerthan et al. (2018) explain that receiving *wasta* favors causes a high level of psychological distress where one feels obligated to reciprocate. While giving *wasta* favors tends to positively affect

individuals as they can call on the other actor to return the favor when required. Hence, satisfaction with the relationship may reflect a balance of reciprocal arrangement and personal satisfaction. However, as our findings highlight, this satisfaction of the relationship between actors does not increase the efficiency of the buyer.

Finally, our findings show a positive link between *wasta* and innovation. Data suggest opportunities to learn and improve innovative outcomes for the buyer. Noordhoff et al. (2011) state that the dark side of B2B relationships can be reduced and innovation is achieved if the relationship can be lengthened and relationship-specific investments made. However, if, as our findings suggest, buyers are unwilling to consider alternatives with suppliers, they could be unaware of the additional benefits they are missing out on by remaining in their current B2B arrangement.

We have identified several issues related to the multifaceted nature of B2B *wasta* relationships. Specifically, inefficiency and obligations to return favors are linked to relationship traps, relationship burden, and relationship stress. The study contributes to the literature on SET and the multifaceted nature of B2B relationships. Two critiques of SET highlighted in previous studies focus on the limited application of the theory at the individual level and in different social and cultural contexts (Berger et al., 2020). We address these issues in the current study by applying SET to study B2B *wasta* relationships in Kuwait, a major economy in the Middle East region that has received little attention in the literature. Our analysis also highlights that the satisfaction of interpersonal ties between individual actors can precede the firm's economic benefits.

As discussed earlier, *wasta* evokes negative sentiments among Arabs. However, it is also an accepted part of doing business in the region that cannot be ignored (Weir et al., 2019). Nepotism and cronyism can result in inefficient relationships being formed (Begley, Khatri, &

Tsang, 2010), and managers must consider possible strategies to reduce the potential adverse outcomes.

6. Implications, limitations, and future research

We ask why buyers and sellers use *wasta* networks when society generally dislikes them. Are individuals and organizations involved in *wasta* not concerned with losing face in society? Reflecting on the findings in the context of high-context countries in general and Arab countries and Kuwait specifically, we feel that losing face in the community seems to be less of a concern than losing face in business. If the parties do not compromise their ethics and reciprocate, they risk losing face in the business community and would be seen as untrustworthy. Therefore, it is directly related to future economic benefits.

Reflecting on SET, the network behavior that we observe in this study contrasts with the general understanding in the literature that the relations will be driven by the firms' resources (Malik et al., 2018). We deduce that firms in the Arab world treat long-term relationships as a resource. One of the critical investments they can make for non-Arab firms intending to work with organizations in the region is developing these firm-level relations (Abosag & Ghauri, 2022). Additionally, firms should carefully choose the individuals who will develop these B2B *wasta* relations, as relationships and trust are built at the individual level (Khakhar & Rammal, 2013).

Generally, while the Arab world does not condone the negative aspects of *wasta*, it also does not formally condemn it. Most countries in the MENA region are ranked outside of the top 50 least corrupt countries worldwide (Kuwait was ranked 78 least corrupt nation out of 180 countries in the 2020 ranking) (Transparency International, 2021). We see merit in some of the steps of the Chinese government to make regulatory and institutional changes to outlaw any corrupt activities related to *guanxi* (Guo et al., 2018). Arab countries such as Kuwait could

follow China's example and make formal regulations regarding the use of *wasta*. This would address inefficiency in B2B and, in general, help to improve the country's talent pool and ensure merit-based selection and performance. In summary, the practice of *wasta* should be seen with moral relativism and acknowledged as a practice that influences B2B activities in the Arab-speaking world.

Our study of B2B *wasta* relationships in Kuwait makes several contributions, but, like all academic research, it has limitations. First, data for this study were collected from buyers in one country in the Arab-speaking region. The focus of the study was to highlight the multifaceted nature of B2B *wasta* relationships. Future studies could identify strategies that could address issues related to the multifaceted nature of these relationships. Second, the study was conducted in a domestic business setting in Kuwait. Future studies could extend the findings to test the influence of *wasta* on buyer-seller relationships involving non-Arab international firms operating in the Arab world. Finally, a single item was used to measure efficiency. We explored and developed this measure, which was not highlighted in previous studies. However, to strengthen it, future research could develop a multi-item measure.

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Figure 1 Conceptual framework and the hypotheses

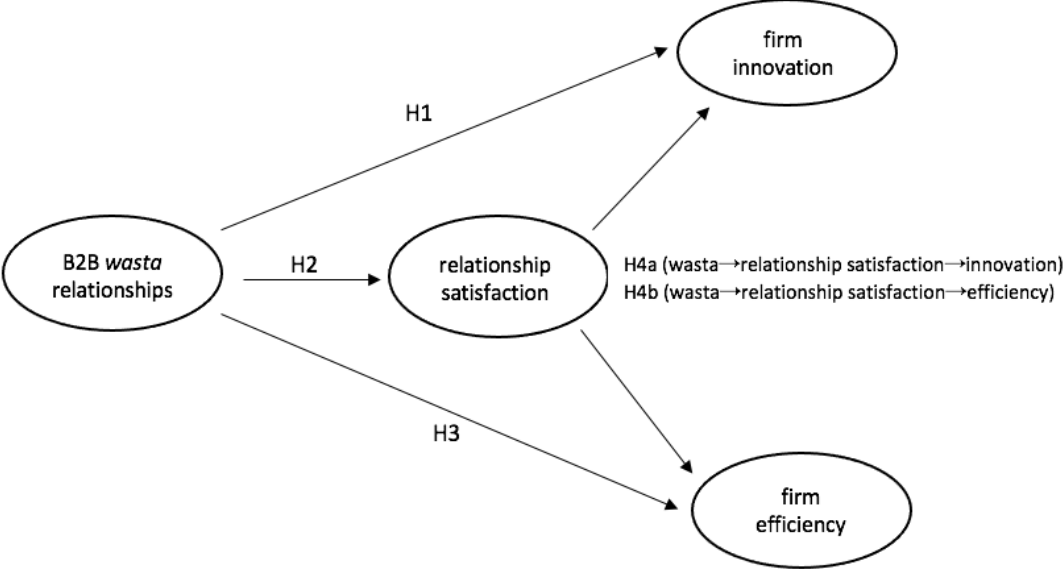
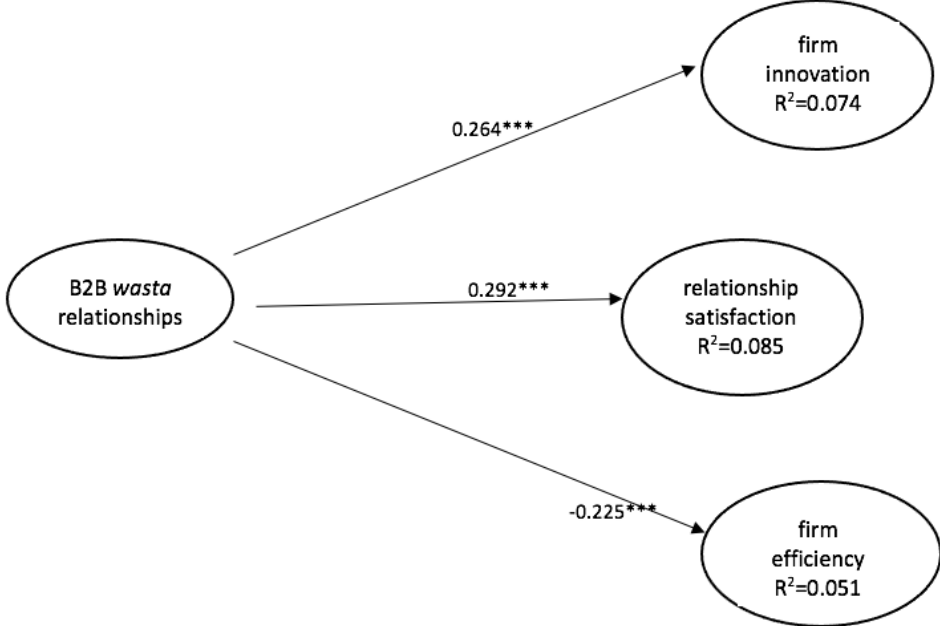


Figure 2 Structural model without mediators (Model 1)



Note: *p<0.10 **p<0.05 ***p<0.01

Figure 3 Structural model with mediators (Model 2)



Note: *p<0.10 **p<0.05 ***p<0.01

Table 1 Measures

Construct measures
B2B <i>Wasta</i> relationships <ul style="list-style-type: none">• I feel a sense of obligation to this supplier's representative for doing them a favor.• I think that "calling in" favors is part of doing business with this supplier's representative.• The "give and take" of favors is a vital part of the relationship between my supplier's representative and me• I would feel embarrassed if I was unable to provide a requested favor to my supplier's representative.• I know it is bad business not to return favors to this supplier's representative• I am happy to do a favor for this supplier's representative when they request one Cronbach's alpha=0.81 (Berger et al., 2021)
Relationship satisfaction <ul style="list-style-type: none">• Our relationship with this supplier has been an unhappy one• Generally, we are very satisfied with the overall relationship with this supplier• We are very pleased with the working relationship with this supplier• We regret the decision to do business with this supplier• We are very pleased with what this supplier does for us• If we had to do it over again, we would still choose this supplier Cronbach's alpha=0.88 (Berger et al., 2021)
Efficiency <ul style="list-style-type: none">• In continuing our relationship with the supplier, the long-held relationship is more important than working with a new lower-cost supplier with whom we do not have previous relations.
Innovation <ul style="list-style-type: none">• My company has learned to do new or improved things about targeting and segmentation the market due to the relationship with this supplier.• My company has learned to do new or improved things about customer service due to the relationship with this supplier.• My company has learned to do new or improved things about product positioning and differentiation compared to competitors due to the relationship with this supplier.• My company has learned to do new or improved things about generating ideas for other products due to the relationship with this supplier.• My company has learned to do new or improved things about the distribution of the products due to the relationship with this supplier.• My company has learned to do new or improved things about communication and promotion due to the relationship with this supplier. Formative construct (Noordhoff et al., 2011)

Table 2 Reflective measurement model evaluation results

Latent variable	Indicators	Convergent validity		Internal consistency reliability		Discriminant validity HTMT confidence interval does not include 1
		Loadings	AVE	Cronbach's Alpha	Composite Reliability	
<i>Wasta</i>	wasta1	0.729	0.510	0.759	0.838	Yes
	wasta2	0.689				
	wasta3	0.795				
	wasta4	0.650				
	wasta5	0.701				
Relationship satisfaction	relationsat1	0.809	0.501	0.669	0.800	Yes
	relationsat2	0.686				
	relationsat3	0.649				
	relationsat4	0.677				

Table 3 Cross loadings

	Efficiency	Relationship satisfaction	<i>Wasta</i>
wasta1	-0.192	0.158	0.729
wasta2	-0.138	0.190	0.689
wasta3	-0.140	0.279	0.795
wasta4	-0.139	0.229	0.650
wasta5	-0.182	0.164	0.701
efficiency	1.000	-0.405	-0.220
relationsat1	-0.354	0.809	0.254
relationsat2	-0.272	0.686	0.148
relationsat3	-0.184	0.649	0.204
relationsat4	-0.314	0.677	0.202

Table 4 Fornell-Larcker criterium

	Efficiency	Innovation	Relationship satisfaction	Wasta
Efficiency	1			
Innovation	-0.341			
Relationship satisfaction	-0.405	0.398	0.708	
<i>Wasta</i>	-0.220	0.255	0.290	0.714

Table 5 Formative construct

Construct	Indicators	Outer weights (Outer loadings)	Outer weights significant (p<0.01)
Innovation	innov1	0.183 (0.717)	Yes
	innov2	0.263 (0.765)	Yes
	innov3	0.229 (0.713)	Yes
	innov4	0.239 (0.793)	Yes
	innov5	0.188 (0.723)	Yes
	innov6	0.252 (0.711)	Yes