Stabilizing brokerage

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A variety of social and economic arrangements exist to facilitate the exchange of goods, services, and information over gaps in social structure. Each of these arrangements bears some relationship to the idea of brokerage, but this brokerage is rarely like the pure and formal economic intermediation seen in some modern markets. Indeed, for reasons illuminated by existing sociological and economic models, brokerage is a fragile relationship. In this paper, we review the causes of instability in brokerage and identify three social mechanisms that can stabilize fragile brokerage relationships: social isolation, broker capture, and organizational grafting. Each of these mechanisms rests on the emergence or existence of supporting institutions. We suggest that organizational grafting may be the most stable and effective resolution to the tensions inherent in brokerage, but it is also the most institutionally demanding.

networks | trade | brokers

Brokers frequently play a critical role in facilitating the movement of goods and information. Demand for brokers who connect otherwise unconnected parties is particularly strong in settings where information is scarce or difficult to interpret, transactions are rare or complex, or the institutional environment supporting exchange is poorly developed. However, the broker's position is inherently weak, because the relational and informational conditions that stimulate demand for brokerage may simultaneously undermine other actors' confidence in the broker. Hence, brokerage is a fragile relation. Based on the empirical literature in a wide variety of fields, we observe that, despite brokers' structural liabilities, brokerage relationships can be stabilized in durable forms that encourage trade even when generalized trust is low or property rights are poorly enforced. The general solution to stabilizing brokerage is the recruitment of supporting social institutions that, in one way or another, enhance actors' confidence in the broker's future behavior. The first aim of this paper is to review the economic and sociological sources of brokers' weakness. We then identify and discuss three analytically distinct social arrangements that can stabilize brokerage relationships into more durable institutions: social isolation, broker capture, and organizational grafting. Each of these mechanisms depends on the emergence or existence of institutions that reduce uncertainty.

What Is a Broker?

Before reviewing why brokerage is a fragile relation, we must ask, what is a broker? The simple answer is that brokers trade over gaps in social structure (1–3). Unlike patrons, true brokers do not put their own resources at risk; rather, they have access to resources that are embedded in other persons, positions, or groups (4).* More formally, we can define brokers as intermediary links in systems of social, economic, or political relations who facilitate trade or transmission of valued resources that would otherwise be substantially more difficult. The crucial characteristics of brokers are that they (*i*) bridge gaps in social structure and (*ii*) help goods, information, opportunities, or knowledge to flow across those gaps. The simplest broker is an intermediary who links two otherwise unconnected actors, which is shown in Fig. 1. Using standard network notation, actors are represented here as nodes, and relations between them are represented as lines. The broker, shaded in black, occupies the space between two otherwise unconnected actors, acting as a bridge between the two endpoints that would otherwise be isolated.

This largely structural view of brokerage is rooted in a network-based conception of social structure in which patterns of relations between pairs of social entities constitute the architecture of society (5). From this perspective, one of the most consistent sociological findings is that social relations are rarely randomly distributed across a population; instead, networks are typically characterized by dense pockets of multivalent relationships—recognizable to us as families, neighborhoods, ethnicities, and various other social groupings—that are loosely connected to one another (6, 7). Although the clustered nature of social structure has many advantages—particularly with respect to the maintenance of social order and the production of identity—it also means that the fabric of social life is riddled with chasms, gaps, and holes that interfere with the free flow of information and goods. It is because of these gaps in networks that brokerage plays such an important role in facilitating trade and interaction (8, 9).

Fig. 2 depicts two additional stylized structures of brokerage, which vary in terms of how connected the other actors are to one another. Fig. 2 *Left* reflects a setting in which side actors do not interact with one another (as in a real estate market), whereas Fig. 2 *Right* reflects two cohesive communities linked by a single actor with ties to both (e.g., a bilingual child who connects her immigrant family with the formal institutions of her new country). Such structural variation may be related to how information flows among parties, the emotional or relational closeness that the broker feels to one side or the other, and the type of claims that side parties are able to make on brokers (10, 11).

Brokerage varies in less structural ways as well. Brokers operate in widely different substantive domains, from facilitating market exchanges to mobilizing interests in politics to lubricating social interactions. Across domains, brokers' reputations vary; they are sometimes revered, and other times, they are reviled. Much of this nonstructural variation can be summarized by distinguishing brokerage that facilitates trade from brokerage oriented toward creating new connections between previously unconnected others (3). We call the former middleman brokers, because the broker remains in the middle of otherwise unconnected actors, and we call the latter catalyst brokers. Although either goods or information can flow through middlemen brokers, catalyst brokers' stock in trade is the introduction, and for this task, they are dependent on being well-connected and maintaining a generally good reputation. Catalyst brokerage occurs in politics, job refer-

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*Of course, there are also intermediaries who control resources directly, but they are, therefore, somewhat less vulnerable than true brokers.

Fig. 1. Broker as simple middleman.

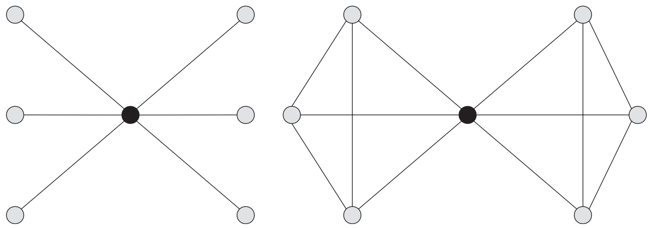

Fig. 2. More complex brokerage arrangements.

rals, and other favor markets (12, 13). Although we find the dynamics of catalyst brokerage—and particularly, the conditions under which such acts of brokerage produce wealth or power—fascinating in their own right, our primary focus in this paper is on the middleman brokers who concentrate on facilitating exchange rather than generating new relationships. The general problem for middlemen brokers, as we elaborate below, is that their activities today may undermine their ability to act as a broker in the future, and the temptation to abuse information in the future undermines trust in them today.

Tensions Inherent in Brokerage

To effectively bridge a gap in social structure, a middleman broker must be credibly connected to actors who themselves are not connected to each other. In other words, a broker must have a foot in two worlds. However, there are both sociological and economic reasons to believe that bridging positions such as those positions occupied by middlemen are difficult to maintain in the long term (14, 15).[†] Broadly, the cause of brokerage's fragility is that demand for brokerage is highest precisely when asymmetries make direct interaction difficult, such as when communities are separated from one another by culture, language, or geography or when the transaction is complex or atypical. That is, demand for brokerage is high when the flow of trustworthy information is low. At the same time, by definition, side parties are highly dependent on the broker, who in the short run, offers the only feasible path to a completed transaction. The dual demands of dependency and low information make side parties uncertain about the appropriate terms of the deal and undermine their confidence in the broker who advocates the transaction. Furthermore, because brokers almost always have more information than either of the side parties, they may be able to benefit more than they would in a competitive market, where the price of the transaction would be driven down by other potential intermediaries. Brokers' ability to exploit their favorable position for private benefit, now and in the future, exacerbates side actors' distaste for interacting with brokers. This general account can be refined into three different explanations for the instability of brokerage: a network argument about weak bridges, a social–psychological argument about role conflict, and an economic argument about information asymmetries and the resulting commitment problems.[‡]

Weak Bridges. The networks literature offers several complementary reasons to expect that the position of a broker will be difficult to maintain. The most structural account is offered by Granovetter (14), who discovered the strengths—and weaknesses—of bridging ties that connect two entities. In ref. 14, Granovetter (14) famously argued that affectively weak ties are valuable sources of information precisely because they tend to be the ones that bridge parts of the network that would otherwise be inaccessible. From the perspective of a given closely knit group, weak ties often reach into new clusters of the network where unknown information resides. Although the great insight of Granovetter's work (14) was to recognize the strength of these bridging ties, we focus on his structural argument as to why bridges are fragile. The idea is that relationships are strengthened and maintained by being embedded in a dense network of other relationships. At the affective level, unreinforced relationships are difficult to maintain because of a hard-time budget constraint: one can only maintain so many ties, and if one already belongs to a cohesive group, it may be impossible to invest in a relationship that none of one's other friends share. Because of infrequent interactions and lack of reinforcement, such relationships, even if established, are likely to weaken or wither over time.

Beyond the purely structural argument, balance theory—one of the foundational theories in the network literature—offers additional insight into why bridging ties are likely to be fragile. Built from the notion of cognitive dissonance by Heider (18) and Festinger (19), balance theory posits that the friends of one's friends are one's friends, and the friends of one's enemies are one's enemies (5, 20). The theory predicts that intransitives in networks of friends and enemies will be resolved to reduce the relational dissonance in the network. Taken to its logical extreme (and ignoring neutral or asymmetric relationships), balance theory predicts the emergence of an us vs. them world, in which all actors are aligned into internally cohesive and externally feuding subgroups (21). In such contexts, persons who bridge subgroups (potential brokers) will be in a structurally incoherent position, pressured by strong and cohesive groups to commit to one group or the other or to exit altogether.[§] Although such clan-like structures are an obvious oversimplification of modern social conditions, empirical evidence reveals that the general tendency toward balanced relations holds across a wide range of settings (23, 24). Interestingly, the tendency within small populations is for new ties to form and fill the gaps, whereas in larger settings, an intermediary might be pulled to one group and away from the other. In either case, the broker's ability to effectively monopolize the gap disappears. Thus, although bridging ties that connect one segment of a network to another certainly exist, they are less durable than ties supported by a cluster of reinforcing relationships.

Role Conflict. A related explanation of the fragility of brokerage comes from the social psychological idea of role conflict. This insight, which can be traced to the works in refs. 25 and 26, asserts that actors may occupy two or more roles that carry with them

[†]Note that both our general claim that brokerage is fragile and the resulting suggestion that middleman brokerage may be associated with decreasing returns are somewhat at odds with the common interpretation of the work of Burt (15) on the returns to managerial brokerage. However, because Burt (16) has, until recently, largely ignored the microdynamics of brokerage, the specific mechanisms by which the observed returns are produced remain unclear. We suspect that the hierarchical and organizational contexts in which the brokers discussed by Burt (15) tend to operate may embody aspects of our stabilizing institutions.

[‡]The unstable dynamic described here is likely to hold primarily when brokers' gains are ambiguous and/or enjoyed privately. In contrast, even as they support new relations among side parties, catalyst brokers' status may actually be enhanced by their brokerage activities (3). For a catalyst broker, each successful act of brokerage consolidates her position in a web of dependence relations, potentially increasing her power and influence. Under such conditions, the reputational and status returns to brokerage are increasing, which ceteris paribus, makes brokerage more—rather than less—stable. However, the work by Smith (17) on low-wage workers reveals the perceived risks associated with catalyst brokerage among African Americans, whose ties to the labor market are already fragile.

[§]Silver (22) argues that the rise of market society helped break down the tribal imperatives that aligned all actors into mutually exclusive subgroups and paved the way for the emergence of both neutral, arm's-length interactions and voluntary, affective friendship relations.

conflicting expectations for behavior. For example, a man who is both a nurse and a husband may experience role conflict if his wife has a medical emergency while they are traveling; the demands of being a medical professional (precise, efficient treatment of symptoms and management of potential risks) may contradict his desire to be warm and comforting to his ailing spouse. More generally, the problem of role conflict is that the conflicted actor (as well as those people around her) will not know what face to use in a given interaction (26). The theory of role conflict has been developed in organizational science, where managers are taught to pay particular attention to boundary spanners whose role conflicts may cast suspicion on their loyalties and commitments. Because brokers have contact with different actors who conform to different norms and conventions, they are particularly susceptible to role conflict.

The pressures on brokers who experience role conflict are nicely illustrated by Bailey (27) in his account of the political development of Orissa after Indian independence. During this period, local villages sent representatives to regional governance councils; it quickly became clear that the effective tenure of these intermediaries was surprisingly short (ref. 27, pp. 58–59).

> Both sides—the villagers and the officials—are caught in the same dilemma. The officials want to work through men in whom the villagers have confidence, men who can be trusted to arouse public enthusiasm and start the process of development going from within. In other words the officials want to win to their side the real leaders of the village. But in fact they come into contact with quite a different type of person. The villagers are in the same difficulty. They want . . . a man "who can stand up to officials," a man of the world with the right contacts. However, any villager who acquires these contacts, at the same time, and in the very process of qualifying himself as a man of the world, has forfeited the confidence of the villagers. This is the type of man who is used to bridge the gap between the villagers and the officials. Neither side feels any confidence in the bridge, but they are forced to use it because there is no other.

Exploitation of Information Advantage. Finally, there is an economic argument that rests on brokers' temptation to exploit their information advantage for private gain, resulting in inefficient outcomes. When the need for brokerage is great, side parties might have no alternative way to trade, but the broker's potential to abuse his informational advantage may lead to the failure of many potential welfare-improving trades.

Why might trade break down? For concreteness, consider a collection of self-interested parties (e.g., family units and villages) who can realize gains from trade and have some economically important private information that they cannot credibly communicate to the other parties. The classic approach of mechanism design (28) is to consider a central, mutually trusted agent (a mechanism) that can credibly commit to the rules that it will follow. After the mechanism is in place, everybody reports some relevant private information to it. For example, in a trading setting, the mechanism asks how much consumers value the goods being sold and how much the goods cost producers to produce them. The mechanism then translates those reports, according to its publicly known rules, into an outcome (e.g., whether trade should occur) and payments (e.g., how much the seller gets and how much the buyer pays). Both the outcome and payments can depend on all of the information reported to the mechanism, and the key is that the mechanism can promise to obey any rule in how it processes this information. This system makes it safe, by assumption, to trust the mechanism; the mechanism design framework takes it as given that the mechanism will not behave opportunistically.

However, this approach asks a lot of the mechanism: the ability to commit to using sensitive information in a very specific way, the ability to commit to not skimming off the top, etc. In some situations, this approach actually is close to how things work (the tax system in developed countries is one common example). More realistically, if the mechanism is an actual person (or even a corporation), it is less likely to act mechanistically and more likely to act in a self-interested fashion. That is, whatever central agent implements the mechanism has a huge incentive to deviate from the agreed-on rules. For example, in a second-price sealed-bid auction (where the winning bidder pays the second-highest bid), the mechanism has the temptation to tell the winning bidder that the second-highest bid is just a penny below the winner's truthfully reported valuation. This knowledge allows the mechanism to extract the entire surplus of trade.

In short, if agents are truthful with the broker and yet cannot verify what messages others sent to the mechanism (in particular, they cannot take the mechanism to court and subpoena all of the other messages), then the broker has huge incentives to exploit them. This finding breaks the assumption that the mechanism is credible, which is crucial in mechanism design. Indeed, if trust is lacking, whenever the broker suggests allocations that may be exploitative, everyone else may just assume that she is lying and refuse to trade. In equilibrium, this system means no trade; in practice, it means brokerage that may appear but quickly erode as actors become suspicious of the broker.

Cycling of Incumbents. Each of these accounts leads to the same conclusion: inherent tensions associated with the relational structure of brokerage, combined with the opportunity for brokers to extract excess gains from information asymmetries, will tend to erode confidence in the broker (15). Absent stabilizing institutions, the inherent weakness associated with brokerage may trigger a cycling of individuals through the broker position.[¶] Regardless of the specific source of instability, we expect a dynamic in which side parties' concerns about the broker become so acute that they ultimately refuse to deal with her. When structural factors prevent direct trade between side parties, this finding means that trade will cease altogether. However, if demand is strong enough, a new broker is likely to spring in to fill the vacant brokerage position. Barring changes in the macrostructure or the emergence of new institutions, this new broker will undoubtedly face the same downward spiral of reputation and over time, will be forced out as well. This process is exactly what happened in Orissa, where the first village representatives were found to be lacking, were removed, and then were replaced by other representatives who were also subsequently viewed as unsuitable (27).

Resolutions to This Tension

In the remainder of this paper, we focus on how institutions may overcome these tensions, thereby creating conditions more favorable to brokerage. We describe and illustrate three classes of institutional arrangements capable of stabilizing brokerage. First, brokers can be isolated as a class through social categorization. Second, brokers can be captured by one set of side actors or the other, essentially becoming a representative rather than a broker. Finally, brokerage functions can be grafted onto organizations; although rare, this organizational grafting represents perhaps the most interesting and potentially durable of these mechanisms.

Isolation. The first form of stabilization involves institutions that socially isolate brokers from those people with whom they might trade.[‖] The most effective and stable forms of isolation involve social categorization: either the emergence of an occupational

[¶]Of course, we may also see cycling of incumbents when stabilizing institutions exist, but this process is likely to be accelerated and more prevalent when the institutional environment is weaker.

[‖]Isolated brokers who are not embedded in isolating social institutions are likely to be vulnerable to accusations of corruption; other actors may, over time, refuse to trade with them, leading back to the cycling of incumbents.

category (e.g., grain traders or matchmakers) or the assignment of brokerage functions to a particular ethnically or religiously defined group. Such social categorization is effective at stabilizing brokered trade because by defining expectations for engagement between occupants of social categories, behavior becomes more predictable. The creation of a social category implies social distance between the brokers and those people with whom they interact; this social distance is often revealed in cultural taboos that prohibit close or intimate social interaction. For instance, eunuchs were effective as bureaucrats in China (29) and the Ottoman Empire (30), because their sexual impotence was thought to make them disinterested in accumulating power. Note, however, that dual to external social isolation is an increase in internal cohesion among members of the isolated social group; in the description by Ferguson (31) of the house of Rothschild, the Rothschilds never reveal any inclination to become Christian or in any way leave their own tribe. Thus, the monitoring necessary for enforcing social boundaries is facilitated by structural or cultural cohesion both among the brokering group and within and/or among side parties (32). The consequence of more predictability and less potential for brokers to ally with one of the sides is more regular trade; the enhanced position of the broker (in terms of wealth) may also yield increased dependence on the broker, which also stabilizes the arrangement. However, members of socially isolated categories frequently pay a cost in status; those people who act as brokers are often viewed by others as inferior, contaminated, or socially dead (29).

Ethnic Middlemen. History reveals how frequently middlemen were members of outsider minority groups. Major European examples include the Jews and Romani (gypsies) (31, 33–35). Members of these groups were frequently the peddlers and merchants who dominated domestic trade, moving goods from areas of plenty to areas of scarcity. Although individual Jews or Gypsies might have become familiar to their trading partners, their social otherness precluded them from ever putting down roots anywhere along their regular routes. Similarly, during the Ottoman Empire, Jewish women often carried information between the Sultan's concubines and the world outside the palace (30); their otherness made it extremely difficult to exploit these secrets or otherwise upset the female sanctuary of the harem.

Strict and mutually enforced boundaries governed interaction between these outsider groups and others, creating a zone for trade in which clients' worry that the broker could be captured by the other side was minimized (because close ties or any other form of exogamy is socially impossible for those people occupying the isolated broker role). Other practices could also reinforce boundaries; for instance, Jewish women were off-limits as sex partners for the Sultans, and ref. 33 shows that Jews and other middlemen minorities often traded in goods that they themselves had little use for, thereby assuaging clients' worry that they would skim off the top for themselves. At the same time, trading partners often focused their energies on undermining the reputation of brokers; for example, the Jews, who for centuries facilitated much of the finance of European society, were commonly called greedy and unclean, and they suffered intense discrimination—and, ultimately worse—at the hands of those people dependent on their brokerage services.

A high-profile example of the reputational costs of brokerage is the case of Bismarck's financier and confidant Gerson Bleichröder, who, although wealthy and influential, was frequently called a money-grubber and was the subject of numerous conspiracy theories (ref. 34, p. xix). Similar reputational problems may have accelerated the fall of the house of Rothschild; after alternative sources of capital emerged, the position of Jewish financiers rapidly declined in Europe (31).**

Matchmakers. Matchmakers provide another example of brokerage concentrated in a socially isolated position. Their capital historically derived not only from being well-informed about eligible young people, but also from their own radical ineligibility as marriage partners. Across a broad range of traditional societies, matchmakers were usually older widowed or otherwise unattractive women whose value in the marriage market was minimal. Like Jews' restraints against consuming the treif foodstuffs they traded, matchmakers' inability to directly exploit their information advantage effectively protected their clients from exploitation—at least in terms of mates if not in terms of payment. Unlike ethnic middlemen, matchmakers practice catalyst brokerage; successful matches bring families together in marriage. When members of these newly connected groups owe a debt of obligation to the matchmaker, her power—if not her status—may increase locally. However, although matchmakers play an essential role in many contexts, cultural myths nevertheless often describe matchmakers as unsavory; for instance, in China, they were associated with witchcraft and known as crones.

Broker Capture. A second way to mitigate the contradictions inherent in brokerage is the capture of the broker by one of the side parties. An explanation of this arrangement is offered by what is known in economics as the double marginalization insight (ref. 36, chap. 4). Imagine a broker who exploits his position as the facilitator of trade between a monopolistic producer and a consumer and begins to trade on his own account as a monopolist reseller between them. The double marginalization argument shows that everyone could simultaneously be made better off if the broker were integrated into either side of the transaction—sharing the interests of either the producer or consumer. Essentially, the reason is that each monopolist along the path of trade (in this case, the producer and the middleman) will charge more than his own marginal cost of obtaining the goods, seeking to make a profit. This process reduces the total volume of trade below the efficient level: some goods that create more value than they cost to produce end up not being traded. When there are two monopolists, this inefficient markup happens two times. Everyone would be better off if the cut were taken just one time (by one agent); however, this more efficient arrangement arises only if the middleman does not trade on his own account but is integrated into one of the sides.

Such integrated arrangements are no longer easily recognizable as brokerage structures, because the actor who connects one side to the other becomes encapsulated in one side or the other (often as the consequence of an underlying cultural or relational affinity). However, careful examination can reveal how traditional brokerage functions are accomplished by actors whose interests are tightly coupled with members of one side. Called a gatekeeper or representative by Gould and Fernandez (10), the captured broker monopolizes external contacts for a group. Sociologically, the key feature of captured brokers is that they span the boundary between a solidary group and the outside world. Although the consequences of which side a broker is captured by can be enormous, the fact is that, in either case, the broker becomes an agent rather than a true intermediary.

Missionaries. The history of religious missionaries offers many examples of broker capture. Missionaries travel to foreign lands in response to the dictates of their faith, often seeking to improve the local conditions, proselytize, or both. Their liminal status between Western and local societies creates myriad opportunities for the flow of information and other resources, but their trustworthiness is often suspect. Depending on how they respond to their positions as intermediaries, missionaries may be effectively captured by either their patrons at home or locals in the missionary site, becoming, in effect, agents for one side or the other. Woodberry (37) documents how Catholic missionaries, who were selected and paid by colonial governments, were most

**This case is yet another example of how difficult it is to translate economic power into political power.

often aligned with the interests of the colonial elite. In contrast, Protestant missionaries were less tied to central actors and often identified very strongly with their local villages. Protestants' commitment to local development took the form of teaching villagers to read and write in the colonial language and advocating on their behalf to regional and colonial elites (37).

Industrial Scientists. The ethnographic work on scientists working at the European Space Agency by Zabusky and Barley (38) reveals variation in the extent to which scientists identify with industry and the scientific community. Consistent with our premise about the instability of brokerage, organizational theory has long argued that scientists working at firms may experience role conflict—and as a consequence, may be viewed as troublesome by employers and others. Zabusky and Barley (38) found that, at the European Space Agency, scientists who identify with neither industry nor the scientific community have liminal and problematic positions, whereas those scientists whose identities were firmly rooted in either the firm's activities or the scientific community reported harmonious and stable relations with others. These captured scientists continued to facilitate cross-boundary interactions, but the fact that they each had a consolidated identity as either employee or scientist simplified their own preference structures and provided a reliable template through which others could interpret their actions. In contrast, those scientists who sought to keep one foot in each world were unable to resolve clear identities, and their experiences were fraught with drama.

Child Translators. Another example of a captured broker is the child translator. In many immigrant communities, one child in the family is selected to act as the go-between, linking the family to schools, businesses, and other institutions of the host country (39). These children use their language and cultural skills to translate and interpret social situations for other members of the family whose linguistic or cultural backgrounds make it hard for them to act on their own behalf. By virtue of their position as brokers, these children may gain access to far more information about the adult world than other children typically enjoy, and some have argued that putting children in this bridging position can result in strain, stress, and confusion (40). However, a review of the empirical evidence shows that most children in this position remain firmly loyal to their families (41, 42).[††] Thus, rather than being neutral brokers, when these children act as representatives of their families they may be able to avoid some of the instability associated with the pure form of brokerage.

Organizational Grafting. The final stable form of brokerage that we consider is the grafting of brokerage onto an existing organization founded for another purpose. We draw support for the durability of this class of arrangements from an economic argument based on the famous Myerson–Satterthwaite theorem.

The theorem says that, given a buyer and a seller with private information about the benefits and costs of a transaction, under some mild conditions, any mechanism that will induce trade whenever it is efficient is sure to run a long-run deficit (43). That is, the broker actually has to put money in, over the long run, to induce the parties to truthfully report their values of trading. Without this subsidy, efficient trade will fail to take place.

Classically, this result is interpreted as a serious obstacle to efficient trade in settings of incomplete information. In the context of stabilizing brokerage, it offers a new explanation for the phenomenon of grafting brokerage onto an existing organization that—through its ongoing and normal activities—produces a surplus of nonrival value (trust, information exchange, consumption value of social events, etc.). Such organizations may be able to leverage access to these nonrival activities, thereby creating a subsidized zone where parties can interact or trade with one another. In particular, because the institutionally produced goods are nonrival, organizations can use the same item (e.g., a social event or a piece of information) to subsidize several acts of brokerage, getting around the Myerson-Satterthwaite deficit problem.[‡‡]

After it is in place, organizational grafting can be an effective way to facilitate brokerage without succumbing to the instabilities inherent in typical brokerage structures. Whatever the organization's primary function, the advantage of organizational grafting is enhanced if the host organization enjoys local legitimacy (46). When actors associated with an organization can coordinate interaction or transactions under the auspices of its regular activities, the organization's reputation may be conferred on a broker, thereby making her less subject to mistrust. Such organizations can, thus, mitigate much of the unraveling that arises from the tendency to treat all brokers' offers as de facto unfair. Organizations may even monitor the behavior of those people acting as brokers, serving as a check on the information asymmetries inherent in the brokerage function.

Although organizational grafting may seem to be simply an unintended consequence of other organizational activities, there is reason to think that using club goods to subsidize brokerage may, in fact, strengthen the organization itself, particularly if (*i*) brokerage enhances the welfare of organizational affiliates so that they are better able to contribute to the organization's primary activities or (*ii*) appreciation for resources accessed through brokerage translates to increased commitment to the organization.

In the remainder of this section, we describe several examples of organizational grafting, each of which highlights a different aspect of this general solution.

Places and Practices. A contemporary example of organizational grafting can be found in Small's (47) fascinating study of childcare centers in New York City. The work by Small (47) describes the characteristics of childcare centers that foster brokerage among persons affiliated with them. Specifically, Small (47) finds that particular organizational practices that promote regular contact among parents and between parents and others associated with the center increase the transmission of information about valuable opportunities and resources. For example, parents of children attending schools that have a very narrow window of time during which parents are expected to pick up their children reported much greater knowledge about other families at the school, as did parents whose children attended schools with a parental volunteer requirement.

These organizational practices had many social benefits, including greater commitment to the school, and generally higher levels of trust and social capital. For our purposes, the most interesting outcome is that the organizational practices that promoted greater interaction also produced more transactional benefits for parents, mostly in the form of tips about jobs, good babysitters, future schools, etc. This finding makes sense theoretically, because the sorts of ties generated by contact through childcare centers are mostly of the weak variety. The work in ref. 47 by Small also documents how important it is for brokerage that the organization be associated with a physical site. Although all childcare centers in his study had a physical location (and they varied in terms of how often parents were there at the same time), those centers that controlled their sites after hours were the most likely to create additional brokerage opportunities. In these

[††] There is, however, evidence that children's loyalty is often very much in play. Drawing on a variety of observations, Orellana (39) describes how young people's behavior can be dependent on the setting in which they interpret: when translating in schools, for instance, children may withhold some information about their own performance from their parents.

[‡‡] When access to such nonrival goods is restricted to those people somehow affiliated with the producing organization, these goods are club goods (44, 45). Notice that organizations that exist only for exchange purposes will rarely produce club goods.

cases, interested parties were invited to hold classes or meetings at the childcare center, giving parents an opportunity to learn about things like childhood immunization or how to become a hairdresser.

Value of Endorsement. The global rise of Pentecostalism, in its many different forms, illustrates the viability of organizational grafting. Pentecostal groups are growing worldwide, but they are particularly successful in places where the rule of law and social peace are largely lacking. A key factor that facilitates brokerage under the auspices of religion is that members of the church are viewed as trustworthy through an implicit endorsement process. Outwardly, this endorsement seems to have little to do with economic certainty, but it solves a major problem confronting citizens of weak states. Because of the successful grafting of brokerage onto the Pentacostal church, the public benefits provided by it go far beyond the spiritual; in some lawless places like the Democratic Republic of Congo, Pentacostal churches provide the only zone of safe trade and exchange.

In this case, grafting brokerage onto the church results directly from the organization's efforts to expand membership. Pentacostals' main goal is to baptize and convert more adherents, and a major requirement of members is that they signal group membership through elaborate rules governing dress, family life, forms of address, and much more. Members are expected not only to adhere to a common belief system but also to proselytize actively, especially in economically disadvantaged areas. Taken together, these rules and practices make it immediately visible—to both insiders and outsiders—who is a true Christian (48).

Although at first glance these rules for signaling membership seem unrelated to economic structures, the endorsement that they promise is a valuable coordinating mechanism: within the organization, members meet others with similar beliefs and norms and participate in a shared community. These shared norms may overcome the structural and transactional instability of brokerage, because the enhanced trust makes it easier to trade and exchange services.[§§] Through the nonrival benefits of shared norms, such organizations (Hezbollah and Hamas are other examples) can effectively create an alternative public service provider, a state within a state, that becomes especially important in weak or failing states (49).

Cross-Cutting Cleavages. Another example of organizational grafting is found at Hull House, the Chicago settlement house. Founded in 1889 by Jane Addams and Ellen Gates Starr, Hull House established the settlement movement and greatly influenced the development of the social work profession. Hull House consisted of a series of buildings in which the working class, including new immigrants, were introduced to the arts and mores of American domestic life. In a very general sense, Hull House itself was designed to cut across the class, religious, and ethnic cleavages that threatened to isolate recent immigrants from American society (although Addams recognized right away that the new arrivals would have to do more of the adaptation) (50). In fact, the university women who served as Hull House volunteers often acted as brokers between immigrants and American society, directly facilitating jobs and housing as well as helping poor women develop the skills necessary to survive in their new urban neighborhood. The crucial feature of Hull House as a site of brokerage is that the primary function of the organization was to bring together persons from distinct and otherwise nonoverlapping worlds. Everyone who came to Hull House—whether as a volunteer or a client—wanted something she could not get through other means. The university women sought an opportunity to improve the lives of the poor, and the recent immigrants, who were often adrift in the foreignness of their new lives, mostly welcomed the opportunities to learn (and share their own expertise in sewing, cuisine, etc.). Hull House created a mixing pot that allowed the two groups to interact without paying the extensive search costs that would have been necessary otherwise.

Conclusions

In this paper, we have discussed the sources of fragility in brokerage relations and described three classes of solutions to this weakness. Each of these solutions involves marshaling other social institutions to stabilize brokerage relations.

One set of social institutions that can improve the conditions for brokerage consists of social categories separated from other actors by taboos and other prohibitions on close contact. Crucially, the formation of a broker-based social role—one held by members of a cohesive ethnic group or an isolated occupation—can stabilize the brokerage function without integrating the broker into society at large. The institutionalization of these social categories requires participation by both the isolated group and the rest of society, who all engage in monitoring the boundaries between groups. Under such arrangements, however, brokers' reputations are likely to be under constant attack, even while others depend on them. Thus, we can often equate an isolated broker with an untrusted broker. Not surprisingly, when alternative means of accomplishing transactions emerge, such middlemen are likely to lose their access to information or opportunities for trade.

An alternate path to stabilization involves integrating the broker into one side or the other; we refer to this as broker capture. Although transforming intermediaries into agents can reduce the pressures on brokers, captured brokers may still be vulnerable to the problems of any agent in the sense that they may be able to exploit information and opportunity for their own benefit. However, the more effectively they are captured, the more effectively their interests will be coupled with the interests of one of the sides of a transaction. This process plays out empirically in the case of child translators, who are often viewed by family members as the favored child.

The least studied but potentially most powerful means to stabilize brokerage is what we call organizational grafting. Organizational grafting occurs when brokerage functions are embedded into existing organizations, thereby creating a zone of neutrality in which contact can occur with less risk of exploitation. The crucial ingredient for organizational grafting is the presence of organizationally generated nonrival goods that serve as subsidies counteracting the inherent costs of the brokerage. We have identified three complementary factors that can lead to successful organizational grafting: endorsements, cross-cutting cleavages, and enhanced opportunities for contact. Each of these factors transfers organizational legitimacy to potential brokers and allows gains to be generally more fairly distributed because of organizational monitoring. Although allowing organizationally generated club goods to subsidize brokerage can enhance general welfare (47), implicit group-level endorsements from highly solidary and trustworthy communities can also provide the backdrop for massive swindles, which the recent Madoff and Amish stock broker scandals show.

Our perspective on the topic of brokerage emphasizes both the structural context of brokers and the dynamics of short- and medium-term social and economic pressures that intermediaries confront. Thus far, our exploration of how these pressures can be resolved has relied on an analytic organization of empirical examples. Although we recognize that isolation requires cultural or structural cohesion among side parties and that broker capture is impossible without a group capable of encapsulating the broker's interest, more detailed analysis of the social and economic conditions that make one resolution more likely than another must be taken up in future research.

[§§]As Berman (49) suggests, an unintended (or intended?) consequence of believing is trust.

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