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Persistence of Informal Social Networks in East Asia: Evidence from South Korea

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Abstract

This study investigates the nature and influence of informal social networks in South Korea (*Yongo*) by analyzing trust levels and network cohesion. Predominantly based on studies on Chinese *Guanxi*, it is widely believed that the further a nation develops stable formal institutions the more the influence of informal relations decreases. Given South Korea's position as a strong economic powerhouse with established rule of law and democratic institutions, the influence of *Yongo* should play an insignificant role today. We find significant evidence that network cohesion of *Yongo* is still strong in South Korea, despite its economic rise. Contrary to expectation, we observe a higher-than-expected degree of general trust and a continuous commitment to *Yongo* ties at the same time. These findings document recent changes in South Korea such as the beginning of its multicultural opening, whereas informal *Yongo* ties, characterized by emotional interpersonal bonds, still remain pronounced. Foremost, we recommend current beliefs about the correlation of institutional development and decreasing informal transactions to be reconsidered. We propose further studies to better understand how informal social networks evolve over time.

Keywords *Yongo*, Korea, Informal institutions, Social networks, Trust, *Guanxi*

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Introduction

Informal social networks are an influential market paradigm in China and South Korea (hereafter Korea). The study of Chinese *Guanxi* has gained prominence, and even dominated the discourse of informal social networks for the past decades. It served as the primary, if not the only point of reference for theory building on informal social networks in East Asia. Similar to *Blat* (Russia), it is generally believed that the influence of these informal social networks decline the further a nation develops its economy and introduces and stabilizes formal institutions (e.g. Wilson & Brennan, 2010; Gu, Hung, & Tse, 2008; Hutchings & Weir, 2006). Sociological literature predominantly indicates that highly influential and exclusive informal social networks exist in Korea, named *Yongo*, as they are also known *Guanxi* in China. Although the country is one of the economically strongest in the world and has already developed democracy and stable formal institutions, *Yongo* presumably still has its influence in daily life (Horak, 2014; Kim, 2007; Lee, 2000; Lew, 2013; Ungson, Steers, & Park, 1997; Yee & Nam, 2008; Yee, 2000a). To the best of our knowledge, empirical inquiry into informal social networks in Korea is under-represented in international business and management literature despite Korea becoming economically more important today. It can shed light on the debate if informal social networks will decline over time.

In international business studies, as well as in economics, the contribution of *Yongo* to economic development in Korea has long been, or still is, overlooked. In his recent publication, Lew (2013) for instance named *Yongo* the missing link in explaining Korea's economic rise. The key to *Yongo* is its partly ad hoc trust ascription among certain circles of actors. Whereas conventional social science research used to distinguish between specific and general trust, trust established based on *Yongo* is notably different as we will see in our further discussion. In comparison, *Yongo* and *Guanxi* share some very basic characteristics. Various studies describe the influence and methods of *Guanxi* as products of Confucian cultural influence (Alston, 1989; Kim, 2000; Yoon & Hyun, 2010), or weigh *Guanxi* against *Blat* as the products of shortage economies and socialist regimes (e.g. Ledeneva, 2003, 1998; Michailova & Worm, 2003; Yang, 2002). However, to the best of our knowledge, no empirical research in international business and management literature exists that contributes to *Guanxi*-dominated (and to a lesser extend

Blat-dominated) theory of informal social networks by analyzing the influence of *Yongo*. With this study we try to contribute to fill this gap.

The purpose of this study is to challenge the general belief in the current status of the research on informal social network whereby their influence decreases with the further development of formal institutions. Based on the example of Korean *Yongo* networks, we study whether they still exist or are diminished. By doing so, our study contributes to a better understanding of the nature and characteristics of informal institutions as demanded by Helmke and Levitsky (2004). We also follow up on Peng, Wang, and Jiang's (2008) inquiry whether the strength of informal networks is institutionally or culturally driven.

The remainder of the paper is structured as follows. First, we introduce the indigenous construct, *Yongo*, by defining it. We also outline the theoretical background on the nature and characteristics of informal social networks. Second, based on the developed structural model, we derive hypotheses on the influence of three variables on trust into *Yongo* networks (in-group trust), that is, general trust, out-group trust and tie strength. Third, all hypotheses were tested in a structural equation model. We present our results and propose theoretical as well as practical implications. Forth, we point out limitations of our research and conclude by proposing directions for future studies on *Yongo*.

Characteristics of *Yongo*

Sociologists, for example, Yee (2000a), define *Yongo* as “particularistic relations maintained by kin, school, or regional ties... [which] transcend institutionalized rules and formal prescriptions, [and] can be an efficient alternative to either the market or hierarchy in economic transactions” (Yee, 2000a: 326; more detailed see Lew, 2013: 54–57). Due to the three shared bases that form *Yongo*, that is: (1) the same home town (in Korean: *Jiyon* [지연]); (2) (former) attendance of the same university or high school (in Korean: *Hakyon* [학연]); and/or (3) family or blood ties (in Korean: *Hyulyon* [혈연]), *Yongo* is to a great extent preset, that is, given by birth, with *Hakyon*-ties being the only exception. Hence, *Yongo* is immutable and irreversible. On the one hand, those characteristics distinguish *Yongo* sharply from *Guanxi*, which is more accessible and diverse, making it a distinctive and indigenous Korean social construct. In order to be precise, it is reasonable to distinguish tie strength of *Yongo*. *Yongo* ties cannot be regarded high-strength ties per se, as the boundary between less-strong and strong ties is rather flexible. This is due to

the many existing shades of *Yongo*. *Jiyon* ties, for instance, can be based on village, county or province. Further, *Hyulyon* ties can be distinguished between the extended or nuclear family. Thus, Koreans typically belong simultaneously to numerous associations and possess ties of different levels of strength within their *Yongo* network (Lew, 2013). On the other hand, *Yongo* is similar to *Guanxi*, a societal phenomenon influencing more or less intensively all sorts of human interactions (Lee, 2000). *Yongo* is used, for example, for all kinds of favors, for information gathering, for job search or career advancement, etc. If *Yongo* exists between two individuals, a trustful relationship is more easily and rapidly established. Among strangers, *Yongo* is often used to establish a relationship, either directly or by recommendation of others who possess *Yongo*. In addition, the Confucian dimension, in which *Yongo* is embedded, is important to recognize. Hierarchical relationships prevail within the network. For example, a senior can demand a favor from a junior and the junior is not expected to deny the favor in exchange for benevolent care and support from the senior (Manske & Moon, 2003). Loyalty and commitment to *Yongo* networks is strong. *Yongo* networks are exclusive, partly competing with each other, and ties within a *Yongo* network can be characterized as sentimental or affective bonds between people of less-strong to high tie strength (Horak, 2014; Lew, 2013; Yee, 2000a). *Yongo* has existed in Korea for centuries. Korean historians report *Yongo*-based formation of camps as early as the Chosun Dynasty (c. 1392–1910). In those days, the ruling *Yangban* class (aristocrats who promoted Confucian values as a societal and governance ideal) “grouped itself into mutually exclusive factions and clans that engaged in fierce rivalry. The fragmentation of the *Yangban* society along the line of scholarly association, kinship and region gave rise to purges and factional strife” (Sik, 2005: 84). Thus, history may be able to explain the roots of societal organization in Korea today and the often observed hostility among different *Yongo*-based camps (Horak, 2014; Lew, 2013; Yee & Nam, 2008).

Theoretical background

Informal networks and institutional environmental embeddedness

Guanxi, *Blat* and *Yongo* are informal institutions that cannot be considered detached from the institutional environment in which they are embedded. The latter refers to the nature, composition, and integrity of the ruling infrastructure, which is composed of formal and informal institutions (North, 1990; Scott, 2010).

Formal institutions (standardized procedures or protocols, contracts, laws, and their enforcement bodies) are hierarchically exogenous to the social apparatus and applied to all individuals indiscriminately (Li, 2007). Structurally strong formal institutions create a depersonalized transaction environment in which competition keeps costs low while allowing market mechanisms to ensure efficiency (Lovett, Simmons, & Kali, 1999). In a weaker formal environment, transactions can easily fall victim to opportunism and rent-seeking without mitigation by informal mechanisms (Tonoyan, Strohmeier, Habib, & Perlitz, 2010; Pejovich, 1999; Helmke & Levitsky, 2004). Discrepancies in the codification or enforcement of formal institutions (or path dependencies based on a history thereof) are a common feature in societies in which informal relations are widely pronounced or, in short, in “network societies” (Kim, 2000: 161). Those societies require the informal guidance of networks to control these problems. When formal institutional power is poorly consolidated or erratically applied, informal institutions must be stronger to compensate (Helmke & Levitsky, 2004; Kim, 2000).

Informal institutions (cultural codes, norms, and values) are endogenous to the society, and based on behavioral norms (North, 1990; Pejovich, 1999). Reciprocity, reputation, and kinship ethics are examples of particularly high importance in relationship-based societies (Li, 2007). Informal institutions such as *Guanxi* and *Yongo* networks are embedded in Confucian traditions that both, China and Korea, share. In more detail, these are family-based ethics and filial piety (Lew, 2013). As a consequence, relationships carry implicit expectations of proper conduct and, in addition to a potential benefit, also imply an obligation (Park & Luo, 2001). For this reason, Confucian societies are frequently touted as the most illustrative example of a relational society.

Though important, the linkages, interaction dynamics and mutual influence between formal and informal institutions are currently insufficiently understood. Informal institutions are multifaceted, hence difficult to separate from each other and hard to study empirically (Hodgson, 2002; Ostrom, 2008, 1990). However, in the past the social capital literature gave several leads on the dynamics of institutional change. For instance, change processes can be triggered through groups or individuals in times when formal institutions do not fit the environment anymore or are considered useless in helping people solving problems. This process can be enforced when monitoring mechanisms are nonexistent or inoperable or breach of rules remains unsanctioned (Ostrom, 1990; Ahn & Ostrom, 2008).

Looking at *Guanxi*, it is obvious that the inclination towards collectivist behavior in the form of network governance has, in addition to the Confucian tradition, a second strand originating in the communist period. Chinese collectivist traditions of the communist period are shallow and instrumental, imposed by political and social pressure and economic shortage as well as inefficiency under the communist system (Ledeneva, 2003, 1998; Yang, 2002). However, the longer Confucian-based traditions and manifestations of collectivist behavior in China (and Korea) are sentimentally as well as instrumentally rooted. They can be seen as cultural traditions strengthened and institutionalized by political and economic inefficiency.

Several authors point out the efficiency and flexibility *Guanxi* offers as a substitute to sometimes unclear and frequently changing rules and policies. In business, *Guanxi* is effective in resolving conflicts more easily than the judicial system (Chan, Cheng, & Szeto, 2002; Dunfee & Warren, 2001; Pearce & Robinson, 2000; Yi & Ellis, 2000). Within firms, it simplifies information flow and mutual understanding, and fosters commitment and trust among colleagues (Su, Mitchell, & Sirgy, 2006). Bian and Ang (1997) and Tsui and Farh (1997) point out the substitutive nature of *Guanxi* in recruiting practices. Whereas formal channels provide little information on a candidate's talent, skills and trustworthiness, informal channels are regarded as an optimal way to bridge this gap. Moreover, they are less costly. Tsui and Farh (1997) assume that recruiting practices based on *Guanxi* will likely weaken in the future the more formalized these processes become. Park and Luo (2001) stress the situation of non-state owned firms that have been discriminated against in terms of taxation or access to bank loans. These firms had to use *Guanxi* to establish connections to state officials, who control these policies. In particular, foreign firms are advised to develop *Guanxi* ties in order to establish a competitive advantage through access to informal information channels (Leung & Wong, 2001). Whereas formal institutions are weak and the enforcement of rights doubtful, *Guanxi* is a resource through which things are getting done, careers progress and agreements are concluded and entrusted (Davies, Leung, Luk, & Wong, 1995; Dunning & Kim, 2007; Luo, 2007; Nee, 1992; Xin & Pearce, 1996). The cultivation of informal *Guanxi* relationships appears to be an integral part of Chinese society.

Concerning the link between cultural tradition and formal institutions, there are three major perspectives. First, following the general understanding in current literature, it seems obvious that as soon as formal institutions develop further, that is, reliable law enforcement is established

and gaps in the legislature are filled, the influence of *Guanxi* is assumed to recede (Wilson & Brennan, 2010; Chang, 2011; Cheng, Wang, & Huang, 2009; Fan, 2002a; Gu, Hung, & Tse, 2008; Guthrie, 1998; Hutchings & Weir, 2006; Ledeneva, 2003; Wang, 2007). Second, however, if the dynamics of informal social networks are culturally driven, it is likely that they will not recede quickly since culture only changes slowly (Hofstede, 2007). Among those who believe *Guanxi* is culturally driven and will persist are Nee (1992), Xin and Pearce (1996), Lew (2001) and Anderson and Lee (2008) who assume “*Guanxi* persists and may remain essential in China” (Anderson & Lee, 2008: 775). Thus, cultural tradition has some critical implications for the future role of informal social networks. Third, a further category recently recognizes the dynamic character of *Guanxi* today, assuming that “there is an emerging new form of *Guanxi* conduct that involves knowledge and information exchange” (Guo & Miller, 2010: 287). Hence, informal social networks may be both culture-driven and institution-driven. On a similar note, Li (1998, 2008, 2010) discovers that in advanced economies, in particular in technology-intensive and entrepreneurial-driven industries, informal ties become important when the environment is uncertain and tacit knowledge is imperative. Moreover, informal ties are regarded as being more valuable to increase transaction value rather than to reduce transaction costs.

As evidenced by the studies cited above, the first view currently receives much support, contrary to studies that take a different point of view. Table 1 shows representative quotations picked from studies published between 1998 and 2010 that underpin the belief that *Guanxi* shall recede over time. The studies presented in this synopsis support the argument of Peng, Wang, and Jiang (2008), who regard the dynamic development of informal social networks (i.e. receding Chinese *Guanxi* due to the fact that formal institutions develop) as institutionally rather than culturally driven. This notion can be seen as an important, yet critical, question of institutional evolution, viewed from the macro-societal level (Peng & Zhou, 2005).

INSERT TABLE 1 ABOUT HERE

Table 1: Receding *Guanxi* – representative quotations

In summary, although unclear whether the proposition holds true, the influence of *Guanxi* and informal social networks generally declines at the pace formal institutions develop and stabilize. We add to this important debate on institutional evolution by empirically studying the case of Korean *Yongo* networks.

Is Yongo receding?

Theoretical knowledge on the persistence of informal social networks is to the greatest extent established by research on *Guanxi*, as discussed in the former section. The strength of *Guanxi* ties is widely viewed to correlate negatively with the further development of the economy and the establishment of formal institutions. The more both progress, the lesser the need to rely on informal relationships. Korean *Yongo* represents an excellent example to test this assumption, as Korea already went through a successful economic and political transition. Korea belongs to the top 15 of the economically strongest nations today, according to its GDP (purchasing power parity) (International Monetary Fund, 2012). Among others, it is a member of the Organization for Economic Cooperation and Development (OECD) and the Group of Twenty (G20). Korean firms (e.g. Hyundai, Kia, Samsung and LG) are international leaders in respective product segments. The EIU (Economist Intelligence Unit) regards Korea as a “full democracy,” ranked among the top 20 countries within the cluster of the United States, the United Kingdom, Belgium, and Germany (EIU, 2010). In terms of the rule of law, the World Justice Project concludes that Korea “presents a strong fairly even picture across most of the dimensions measured by the Index. Administrative agencies are perceived to be transparent and free of corruption...” (Agrast, Botero, Martinez, Ponce, & Pratt, 2013: 33). The World Justice Report Rule of Law Index measures the perception of rule of law across nine dimensions: limited government powers, absence of corruption, order and security, fundamental rights, open government, regulatory enforcement, civil justice, criminal justice, and informal justice.

Based on the belief that the influence of informal social networks disappears once the economy strengthens and formal institutions stabilize, there should be a marginal level of persistence of *Yongo* in Korea today. Being aware of this relatively strong statement, we prefer to provide the following proposition instead of a hypothesis.

Proposition 1 *Yongo is insignificantly pronounced in Korea today.*

General trust levels in contemporary Korea

As indirectly mentioned from the previously cited sources, the glue that keeps informal social networks together is trust ascription among its members. Gambetta defines trust as “a particular level of the subjective probability with which an agent assesses that another agent or group of

agents will perform a particular action, both before he can monitor such action (or independently of his capacity ever to be able to monitor it) and in a context in which it affects his own action” (Gambetta, 2000: 218). In other words, trust refers to confidence in a predictable (good) outcome, and reliance on honorable, honest, and fair behavior and intention.

It is generally believed that in Confucian societies, such as Korea, the level of general trust (trust in strangers or people with whom no personal connection exists), is poor. Prominent scholars such as Fukuyama (1995) have classified Korea a “low-trust” society, in which particularistic trust is higher than general trust (see also Chang & Chang, 1994). The World Values Survey, 5th wave, 2005–2008 (WVS, 2009) appears to confirm a low degree of general trust in Korean society. Fukuyama’s assertion as well as the WVS’s questioning approach have been frequently contested in the past (for an overview, see You, 2005). We propose a different view. The East Asian Barometer (EAB), a database more focused on the East Asian region, found in a survey wave conducted between 2001–2003, even before the WVS 5th wave, that the general trust level in Korea is 39.4%. That puts Korea next to Mainland China and Taiwan into the top cluster in which general trust is highest pronounced, ahead of Japan, Hong Kong, Mongolia, the Philippines and Thailand (EAB, 2003). Furthermore, the latest research found the level of general trust in Korea to be rather medium-pronounced, compared to Fukuyama’s low-trust claim in the 1990s. According to a study conducted by the Korea Institute of Health and Social Affairs, general trust is 4.59 on a scale from 0–10 (Korea Herald, 2014). Furthermore, the latest Trust Index of the Edelman Global Trust Barometer (Edelman, 2014) observes a slight decline in trust between 2013 and 2014 in 26 selected countries (including the US and France) – but, surprisingly, not so in Korea. As one of the few countries analyzed, Korea shows a reverse trend of an increase in trust. In 2014, Korea is placed in the medium position with Sweden, Germany, the UK, Australia and others. In summary, we see today a less clear picture to classify Korea per se as an atypical “low-trust” country. Taking into account the dynamic developments of recent years, such as a higher integration in international trade and business activities, a higher exposure to international trends and media, and recently an increasing number of foreigners living in Korea (Kim, Kyung, Lee, & Lim, 2012), we assume, compared to the situation in the 1990s, that general trust is slowly increasing in Korea today. Again, we are aware this is a relatively strong statement as to date the belief of Korea being a typical “low-trust” country is

still widely accepted. Hence, rather than formulating a hypothesis, we prefer to provide the following proposition instead:

Proposition 2 *General trust is slowly increasing in Korea today.*

Hypotheses and model

General trust and Yongo

Based on the facts provided above, we assume that the level of general trust in Korea today is slowly increasing. However, at the same time scholars argue that informal social networks are strongly pronounced. Considering this, we assume that even with a slow increase of general trust, *Yongo* trust (in-group trust) does not decrease as a consequence. On first view, this may appear contradictory, but by taking a look at Korea through an indigenous lens, this “paradox” appears to be well in line with the cultural context of East Asia. The research stream on *Yin Yang* regards *Yin Yang* as the underlying philosophy that integrates paradoxes in China (Fang, 2012; Fang & Faure, 2011; Li, 2012). *Yin Yang* is an ancient, indigenous Chinese philosophy (Chen, 2002; Li, 1998, 2012) of major importance in Taoism. It states that opposing elements depend on each other; they mutually affirm and negate and transform and balance each other in order to be in complete unity (Li, 2012). Whereas in the West, a “paradox” conventionally has an illogical or slightly negative connotation, the *Yin Yang* view regards contradictions as a natural condition not mutually exclusive, rather necessary and mutually dependent. *Yin Yang* balances contradictions; it harmonizes and synthesizes them (Fang, 2003, 2012; Fang & Faure, 2011; Li, 2012). Even though the Korean national flag features something similar to the *Yin Yang* symbol in its center, it can be assumed that what in the West is usually perceived a paradox may appear in a Korean context a natural order of two opposites that rest together in unity. Such arguments lead to the following hypothesis:

Hypothesis 1 The higher the general trust, the higher the *Yongo* trust (in-group trust).

Levels of out-group trust

Out-group trust between two partners or members of different groups is more dependent on the informal institutions guiding the behavior of those individuals (Williamson, 2000). Those can be

based on shared commonalities, rather sentimental than rational in nature (Kramer & Tyler, 1995; Kramer, 1999; Morrow Jr., Hansen, & Pearson, 2004). For example, in a business context, out-group trust between Western business partners is said to be comparably lower and considered not necessary for any organizational role (Li, 2007). In the West, the decision to trust and build a relationship outside one's own group is more likely to follow rather than precede a deal (Ambler, 1994; Lovett, Simmons, & Kali, 1999; Park & Luo, 2001). Though the West versus East discourse is quite pronounced in literature (Chen & Miller, 2010, 2011; Gupta, 2011; Lin, 2002), we are aware that a general comparison of West and East disregards national specifics. However, following the literature, it can be assumed that the decision to trust and to enter a relationship in the West is rather cognitively based, built on judgments of competence, ability, and integrity (McAllister, 1995; Jeffries & Reed, 2000; Parayitam & Dooley, 2009).

While we assume an increase in the level of general trust in Korea today (see Proposition 2), out-group trust is also said to be highly enunciated (Lew, 2013; Chang & Chang, 1994). From the reverse point of view, this implies that trust ascription towards people to whom only few or no similarities exists, that is, people of another religion, nationality or ethnicity, is expected rather to be lower and leads to higher trust ascriptions to the indigenous and original Korean form of relational networking, that is, *Yongo*. Therefore, the following hypothesis can be stated as:

Hypothesis 2 The lower the out-group trust, the higher the *Yongo* trust (in-group trust).

Levels of Yongo tie strength

High tie strengths are characterized by a high emotional attachment. Relationships are not solely used instrumentally, as actors regard their relationships to others often as friendship-like relations to which obligations exist. Drawing mainly on the sociological literature, there is ample evidence that *Yongo* continues to be strong in Korea (Lew, 2013). Cha (2000) regards the family concept, which is fundamental in Confucian relationships, to be the central element that explains tie strength of *Yongo* relations. Ties that exist or are established follow, in principal, family morals. Hence, these ties are emotional and strong. Obligations and behavioral expectations between members are colored by their embeddedness in Confucian hierarchical relations. With reference to Granovetter's (1973: 1360) "strength of weak ties", that is, discovering the positive

effect of using weaker pronounced ties, Yee (2000b) refers to the use of natural strong (pseudo-)family ties. As for Korean *Yongo* networks, the “strength of strong ties” (Yee, 2000b: 340) would make a more suitable key phrase, as weak ties are per se seldom used for important purposes. Informal social networks are usually based on emotional trust and coalesce around the same nodes that are used to define the self (Michailova & Worm, 2003; Fan, 2002b; Ledeneva, 1998; Tsui & Farh, 1997; Yee, 2000a). Commonality is an emotional aspect of ascribed sameness and shared self that creates an impression of a quasi-family bond even between non-kin, thus subjecting the partners to the kinship ethical rules of conduct (Lovett, Simmons, & Kali, 1999; Michailova & Worm, 2003; Tsui & Farh, 1997). This leads to our assumption that the stronger the emotional ties are, the higher the trust in *Yongo* is at the same time. Hence, we derive the following hypothesis:

Hypothesis 3 The higher the emotional tie strength, the higher the *Yongo* trust (in-group trust).

Based on the previous discussion, our research model is presented in Figure 1.

INSERT FIGURE 1 ABOUT HERE

Figure 1: Structural model and hypotheses

Methods

Research procedure and sample

The survey was conducted in the form of a paper-based questionnaire. In order to prevent a language-based bias (Costa, Foucart, Arnon, Aparicic, & Apestegui, 2014a; Costa, Foucart, Hayakawa, Aparici, Apestegui, & Heafner, 2014b), the original questionnaire was compiled in English and translated back and forth. First the translation from English into Korean was executed by a Korean bilingual translator. Back translation was accomplished by a second translator according to the back translation method proposed by Brislin (1970, 1986). Final discrepancies between the two versions were resolved between the researchers and the translators. In order to ensure exact uniformity in meaning of the Korean and English questions, the translated version of the Korean questionnaire was also carefully cross-checked and critically

discussed between the researchers and third-party bilingual Korean natives (one student, one senior professional). After the translation process was completed and minor corrections were applied to the questionnaire, the final version was pre-tested by three Korean natives.

The data was gathered in two waves in 2012 and 2014 in Seoul and Suwon (vicinity of Seoul), Korea, by three Korean research assistants and one of the authors. Respondents were approached in major business districts of Seoul: (1) among students of Korea University and the University of Suwon; (2) among their families; and (3) their acquaintances. As *Yongo* is a phenomenon that affects the entire Korean population, we have chosen this sampling approach to ensure the generation of a diverse demographic dataset that includes representatives from all age groups, genders and different occupations. The respondents completed the questionnaire in the presence of the interviewers in order to clarify questions that arose. All six research assistants were comprehensively briefed by the researchers prior to the survey.

A total of 321 questionnaires were completed. Out of the total, 27 questionnaires (8.4 %) were excluded from further calculations, since respondents gave only incomplete answers. From the remaining 294 (91.6 %) the male/female ratio was almost balanced, at a level of 53.7 % male and 46.3 % female respondents. Results are displayed in Table 2.

INSERT TABLE 2 ABOUT HERE

Table 2: Demographic profile of respondents

The respondents' ages were gathered in six categories from below 25 up to 65 and above. The data reveals that with a percentage of 54.4 %, more than half of the sample belongs to the 25 to 34 year age group. Overall, 79.3 % of the sample holds at least a bachelor's degree, whereas approximately one-fifth (19.7 %) holds only a high school degree (1.0 % were miscellaneous). We believe that the research subject justifies a mixed sample as *Yongo* is a society-wide phenomenon that makes every member of Korean society – independent of his/her professional status – a relevant member of the subject pool. Nevertheless, even though the majority of respondents (78.8 %) hold a position in a private or public organization, we are aware that the sample contains 21.2 % students – a slight limitation of the study besides its limited sample size. However, because of the nature of our study as a first step of empirical inquiry into informal institutions in Korea, we deem this research as an appropriate way to gain a better understanding of *Yongo* networks.

Has Yongo receded in Korea today?

Following *Guanxi* theory, the proposition we put forward claiming that the influence of informal social networks should be insignificantly pronounced in Korea today cannot – to our surprise – be clearly supported. Before model estimation and the testing of hypotheses, this proposition was evaluated in a first attempt by comparing mean values of five items that comprised the narrow and extended understanding of *Yongo*, with three items that negate the emotional attachment to *Yongo*. The results are displayed in Table 3.

INSERT TABLE 3 ABOUT HERE

Table 3: Existence of *Yongo* trust (in-group trust)

Given a five-point Likert scale with scale ranging from “1 = strongly disagree” to “5 = strongly agree,” a clear tendency towards the existence of *Yongo* ties can still be observed in Korea today (overall mean 3.69). In comparison to this finding, items negating *Yongo* clearly result in disagreement of the respondents (overall mean 2.82). Both mean values are significantly negatively correlated (Pearson $R = -0.26$). These results at least indicate, if not support, Proposition 1, that informal social networks may not be completely diminished in an economically leading country with stable formal institutions – contrary to what several authors contributing to *Guanxi* theory suggest. Hence, our results tend to speak in favor of scholars with regard to informal social networks rather than culturally driven or dynamically developing networks.

On the other hand, concerning Proposition 2 on general trust development in Korea, we found initial evidence that the recent developments in Korea that we described earlier led to increasing levels of trust towards other people. Given the same five-point Likert scale as above, our two items for general trust (overall mean 2.89) indicate growing trust of Korea’s society contrary to our expectation, that was based on older literature putting Korea clearly into the “low trust” society category.

However, considering the sample composition and the number of respondents, these results need to be treated with caution. Again, we have preferred working with propositions rather than hypotheses on the receding influence of informal social networks in East Asia and growing general trust, well aware that it requires a series of empirical inquiry to validate and back up new findings. We propose to regard our results as a first empirically based indication for informal

social networks not necessarily disappearing while an economy grows and formal institutions stabilize (see also Lew, 2013). Moreover, we hope our results trigger more research in the direction of reflecting the so far rigid distinction of low- and high-trust societies by taking the cultural context explicitly into account.

Measurement of factors influencing Yongo trust (in-group trust)

The overall questionnaire consisted of 46 questions. Except for the demographic section, all items for the three independent constructs “general trust,” “out-group trust” and “tie strength”, as well as the dependent construct “Yongo trust (in-group trust)”, were measured by a five-point Likert scale with scale from “1 = strongly disagree” to “5 = strongly agree”.

General trust: For this dimension, the World Values Survey (WVS, 2009) was applied by using two items (Cronbach’s Alpha $\alpha = 0.75$, mean value 2.89) to assess the respondents’ general trust in people. The items were “I trust people even when I meet them for the first time” and “Generally speaking, I believe most people can be trusted”.

Out-group trust: To measure the respondents’ trust of other members of society at large, but in three areas of religion, nationality and ethnicity, three different items from the WVS 2009 were used (Cronbach’s Alpha $\alpha = 0.88$, mean value 3.73). The items for out-group trust were “I believe people of another religion can be trusted”, “I believe people of another nationality can be trusted”, and “I believe people of another ethnicity can be trusted.”

Tie strength: As no pre-tested scales were available to explore Korean-specific *Yongo* features, two items were created in order to assess the emotional cohesion of *Yongo* (Cronbach’s Alpha $\alpha = 0.64$; mean value 3.31). This phenomenon was named the individual’s tie strength. The items for tie strength were “I feel a personal obligation to people in my *Yongo* network” and “I regard members of my *Yongo* network as friends”.

Yongo trust (in-group trust): The dependent variable *Yongo* trust was accessed by a five-item battery. Since no validated scales were available that explore *Yongo*, the items were based on a broad literature review. The understanding of *Yongo* greatly benefitted from the extensive living and working experience in Korea of one of the authors resulting in a profound understanding of the local context. Based upon this cultural background, a narrow (three items) as well as an extended (two items) understanding of *Yongo* trust was applied to the study (Cronbach’s Alpha $\alpha = 0.79$, mean value 3.69). Items relating to the narrow understanding of *Yongo* trust were,

according to literature: “I trust people more who graduated from the same university or high school as I did,”; “I trust people more who were born in the same city/region as I was”; and “Family members can be trusted”. An additional two items represented the extended sphere of *Yongo* trust: “I trust people more with whom I have something in common” and “Generally speaking, I believe people of my *Yongo* network can be trusted”.

Results

The hypotheses were tested with structural equation modeling using SPSS AMOS 22 for $n = 294$ respondents and maximum likelihood method. No missing values occurred, since incomplete questionnaires were previously excluded ($n = 27$). The measurement model of the latent exogenous variables had three concepts with a composite reliability of 0.75 for general trust, 0.90 for out-group trust and 0.64 for tie strength. The composite reliability for the latent endogenous variable of *Yongo* trust (in-group trust) has a value of 0.79. All the concept-to-domain coefficients given in Table 4 were statistically significant. Thus, convergent validity was established. Discriminant validity was verified by determining that the average variance extracted by each latent exogenous variable’s measure (general trust 0.60, out-group trust 0.75, tie strength 0.47) was larger than its squared correlation with any other latent exogenous variable (Fornell & Larcker, 1981). Correlations between general trust and out-group trust (0.37), general trust and tie strength (0.19), and out-group trust and tie strength (-0.02) are additionally given in Figure 2.

INSERT TABLE 4 ABOUT HERE

Table 4: Items, loadings and dimensions

INSERT FIGURE 2 ABOUT HERE

Figure 2: Structural equation results

The overall fit of the applied model can be regarded as very good ($\chi^2 = 94.33$, $df = 48$; $\chi^2/df = 1.97$, $p = 0.000$, $CFI = .97$, $GFI = .95$, $AGFI = .92$, $RMSEA = .06$, $PCLOSE = .23$) according to Hair, Black, Babin, Anderson, and Tatham (2006). Given the fact that empirical research of *Yongo* trust (in-group trust) is still in its infancy and a lot of experience from research

in the area of *Guanxi* networks has to be adapted, the first results presented in this paper are quite satisfactory, in our opinion.

Estimation results pertaining to hypotheses testing show that the two independent factors, general trust and tie strength, have a positive influence on *Yongo* trust (see Figure 2). On the one hand, the significant effect of general trust (0.21) on *Yongo* trust ($p \leq 0.01$) represents the more general part of the respondents' evaluation of outside relationships and displays their general open-mindedness concerning overall trust. On the other hand, tie strength – the perspective of an individual's internal relationships within the network – has a strong significant positive effect (0.71) on *Yongo* trust ($p \leq 0.001$). Therefore, hypotheses H_1 and H_3 have to be confirmed (see Table 5). In addition, the negligible positive effect of out-group trust (0.02) on *Yongo* trust, which represents the respondents' detailed evaluation of outside relationships, stays around zero and reveals no significance. Therefore, hypothesis H_2 has to be rejected. Based on these results, we assume that there seems to be not only a continuing existence of *Yongo* networks in Korea (see Proposition 1), but also a strong relationship between peoples' evaluation of tie strength and their trust in their *Yongo* network. Moreover, the significant effect of general trust in other people on *Yongo* networks displays the trust in others generally as well as in *Yongo* ties at the same time. In contrast, the assumption that people who show a low trust towards outside relationships draw preferably on *Yongo* networks has to be rejected. Nevertheless, rejecting this hypothesis strengthens the prior finding that exhibiting general trust and *Yongo* trust simultaneously constitutes no contradiction in Korea.

INSERT TABLE 5 ABOUT HERE

Table 5: Hypotheses tests

Discussion and conclusion

Beyond the theme that is analyzed in this paper, it is noteworthy to reflect on the potential influence informal social networks in East Asia have and the little we know about them so far, with the only exception being Chinese *Guanxi*. As for Korea, Lew (2013) for instance regards *Yongo* as the “missing link” in understanding the developmental path of the Korean economy. If *Yongo* was (or still is) the driving force on an interpersonal level behind the competitiveness of Korean firms, further development of the economy and the political system in Korea, then what

important contributions did informal social networks in other East Asian countries make, and what implications does this have for economic coordination and development as well as theory building? Lew's view is largely a positive one, although the conventional literature usually connects informal social networks to illegal transactions, cronyism, bribery or mafia-like circles. Certainly, informal social networks have two faces but how does one draw on the positive effects and minimize negative outcomes? A remedy may be the establishment of more transparency in interpersonal transactions, as proposed by Yee and Chang (2009). These questions are important in order to develop a better understanding of the institutional context, the nature and character, and the interplay of formal and informal institutions in East Asia. It is astonishing that research centering on informal social networks, and theory building in this field, is still underdeveloped in international business and management studies.

Contribution

This research results in two major contributions. First of all and most importantly, our results tend to support the proposition that informal social networks persist in a developed economy with stable formal institutions. The general belief that the influence of informal relationships, such as in the case of *Guanxi*, declines and is assumed to diminish (Guthrie, 1998; Peng, Wang, & Jiang, 2008), could not be clearly observed as for the case of Korea. Referring to the proposal by Peng, Wang, and Jiang (2008) that the strength of *Guanxi* is rather not culturally but likely institutionally driven and hence declines when formal institutions develop and stabilize, shall be complemented by the assumption that *Yongo* appears not to lose influence. Again, with caution, we propose to consider our results' first indications that call for further empirical validation. Nevertheless, these results support the camp of scholars who regard informal social networks rather culturally driven or dynamically developing, hence persisting. Our results show that emotional attachment to people from the same university, regional origin and family is still high. That leads to trust ascriptions to *Yongo* networks (in-group trust). Informal social networks may be regarded as an informal institution that develops over history and is deeply anchored in the respective cultural context. Therefore, they do not change quickly (Hofstede, 2007). These arguments are strong and – given a non-existent empirical branch of research – may be considered at first to be premature.

Moreover, international business and management literature studies that focus on the cultural roots of *Yongo* from a historical point of view are scarce. This analysis is important in order to answer the question whether transformation dynamics of *Yongo* are either culturally or institutionally driven or both. If *Yongo* is itself deeply rooted in the Korean culture, it will persist rather than quickly change with institutional changes. However, further approaches that deeply investigate the cultural context in the international business and management field, for example, as conducted by indigenous management researchers (Fang, 2009; Holtbrügge, 2013; Li, Leung, Chen, & Luo, 2012; Tsui, 2004; Van de Ven & Jing, 2012), are needed in order to better understand these important questions.

Secondly, the conventional belief that in “Confucian” Korea general trust is low and out-group trust is high, needs to be adjusted (Lew, Chang, & Bae, 2002). Our results do not find significant evidence that Koreans per se trust people more within their *Yongo* network (in-group trust) than others generally. Recent sociological literature reports on Korea’s move towards a multicultural society (Kim, Kyung, Lee, & Lim, 2012). Today, Korea is undergoing a transformation. The society is more open to foreigners as well as more exposed to the international community. As a result, we believe that the general trust level as well as openness towards foreigners shows an increase today, while at the same time commitment to *Yongo* networks remains.

Implications for practice

For practical purposes, this research also reveals some important results. As *Yongo* relations represent an influential paradigm to establish trustful interpersonal relationships in Korea, it can be a hurdle for Koreans without the necessary relationships. This is important for a wide array of business functions such as human resource management, company–government relationships or customer acquisition in sales management. Especially for foreign managers, *Yongo* relationships represent a challenge in establishing a *Yongo*-equal trust level. *Yongo* is based on family ties, university alumni relations and regional origin. Except for university-based relationships, the other two factors are given by birth, that is, are pre-defined. Given this fact, the question arises whether expatriate managers can ever be in a position to establish *Yongo*-equal high-trust relationships with their Korean counterparts in business. As a result, firms need to be aware of

the influence of *Yongo* when filling positions that require the establishment of trust to firm-internal as well as to firm-external stakeholders.

Limitations and further research

The indications of this study need to be seen against the background of its limitations. As far as we know, this is the first study in the field of international business and management studies empirically analyzing the persistence of *Yongo*. Nevertheless, our sample size should rather be considered a convenience sample given that we analyze a subject that represents the entire Korean society. Though our subject pool comprises a weighted number of male and female respondents as well as a heterogeneous age and professional sampling, future research should consider a higher number of respondents and include a higher portion of senior test persons. Moreover, our survey reflected the current position, a more profound understanding of the state and influence of informal relationships may be better captured by longitudinal studies. Research designs of that kind would be beneficial in order to better understand the strength of influence of *Yongo* over time.

Finally, we propose our main statement with caution, as the initial indication that informal social networks may not diminish completely while a nation develops its economy and institutions, has fairly immense implications for future research. Informal institutions may persist over developmental phases of an economy and society and the establishment of stable formal institutions may not lead to their complete diminishment. In contrast to Chinese *Guanxi* networks, the persistence of informal social networks may also differ between societies, pointing towards differences in their heritage and nature. What we know today about the nature and dynamics of *Guanxi* may not be generalizable for other cultures' informal relationships. With the example of Korean *Yongo* relationships, we indicate that informal relationships may persist over long developmental periods. If future research is going to confirm this assumption, it may be doubted whether informal social networks will ever diminish completely. Following that logic and prior argumentation, they may represent a central cultural element unique to a country. More research needs to be conducted in order to better understand the nature and influence of these informal social networks.

Conclusion

In conclusion, we do not see the influence of *Yongo* diminishing in Korea today, contrary to the general belief that informal social networks lose its influence the more an economy develops and formal institutions stabilize. In fact culture, in form of history and tradition, may have critical implications for the development of informal social networks. In the background of our results and of the influence informal social networks have on economic transactions and development, we recommend future research to study them deeper in order to understand their dynamics in more detail.

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Tables and Figures

Table 1. Receding *Guanxi* – representative quotations

Author (year)	Quotation
Brennan & Wilson (2010)	In all likelihood, as China continues with market reform <i>guanxi</i> will take on less strategic importance. (p. 662)
Gu, Hung, & Tse (2008)	(...) these findings remind us of the transitional and developmental stages of many emerging economies in which <i>guanxi</i> is a fundamental part of economic and social life. As these economies approach the true market system, the moderating effects of interpersonal ties are likely to decrease. (p. 24)
Hutchings & Weir (2006)	Undoubtedly <i>Guanxi</i> has been a powerful tool for achieving business ends in a society that lacked clear bureaucratic norms, sound legal principles and practice, and institutional trust. Yet, as China is implementing international standards of accounting, law, property rights, and management, the role of <i>Guanxi</i> is expected to decline in significance. (p. 282)
Fan (2002b)	It is more than likely that <i>guanxi</i> 's role in business will eventually diminish as China moves towards an open market system. (p. 543) The development of the market in the last 20 years has made all these former uses of <i>guanxi</i> redundant. It can be argued that with the further progress in the market economy and an emerging democratic civil society, the importance of business <i>guanxi</i> (in its current form) will be gradually reduced rather than increased. (p. 558)
Guthrie (1998)	In China today, powerful economic actors often pay more and more attention to the laws, rules and regulations that are part of the emerging rational-legal system which is being constructed by the Chinese state. Many managers of large industrial organizations increasingly view <i>guanxi</i> practice as unnecessary (...). (p. 225)

Figure 1. Structural model and hypotheses

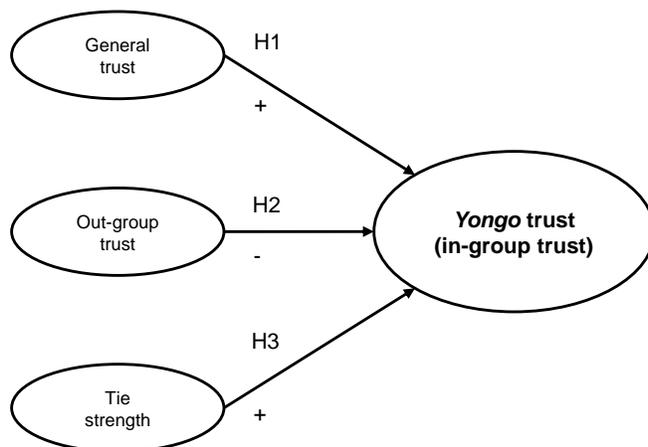


Table 2. Demographic profile of respondents

Demographics (n=294)	Specification	Value
Gender	male	158 (53.7 %)
	female	136 (46.3 %)
Age	< 25	48 (16.3 %)
	25-34	160 (54.4 %)
	35-44	26 (8.9 %)
	45-54	43 (14.6 %)
	55-64	8 (2.7 %)
	> 65	9 (3.1 %)
Education	High school	58 (19.7 %)
	Bachelor	180 (61.2 %)
	Master	49 (16.7 %)
	Doctorate	4 (1.4 %)
	Miscellaneous	3 (1.0 %)
Job	Students	62 (21.2 %)
	Private organization or self employed	126 (43.0 %)
	Public organization or miscellaneous	105 (35.8 %)

Table 3. Existence of *Yongo* trust (in-group trust)

Item (scale: “1 = strongly disagree” to “5 = strongly agree”)	Mean	Overall
I trust people more with whom I have something in common.	3.73	
Generally speaking, I believe people of my <i>Yongo</i> network can be trusted.	3.66	
I trust people more who graduated from the same university or high school as I did.	3.47	3.69
I trust people more who were born in the same city/region as I was.	3.08	
Family members can be trusted.	4.53	
I feel no personal obligation to people within my <i>Yongo</i> network.	2.88	
I do not necessarily have a friendship with people of my <i>Yongo</i> network.	2.94	2.82
I do not care much about my reputation in my <i>Yongo</i> network.	2.64	
I trust people even when I meet them for the first time.	2.73	2.89
Generally speaking, I believe most people can be trusted.	3.04	

Table 4. Items, loadings and dimensions

Items	Loadings	CR	AVE	Dimension
I trust people more with whom I have something in common.	0.56***			
Generally speaking, I believe people of my <i>Yongo</i> network can be trusted.	0.83***			
I trust people more who graduated from the same university or high school as I did.	0.75***	0.79		<i>Yongo</i> trust (in-group trust)
I trust people more who were born in the same city/region as I was.	0.74***			
Family members can be trusted.	0.38***			
I trust people even when I meet them for the first time.	0.73***			
Generally speaking, I believe most people can be trusted.	0.81***	0.75	0.60	General trust
I believe people of another religion can be trusted.	0.68***			
I believe people of another nationality can be trusted.	0.95***	0.90	0.75	Out-group trust
I believe people of another ethnicity can be trusted.	0.95***			
I feel a personal obligation to people in my <i>Yongo</i> network.	0.69***	0.64	0.47	Tie strength
I regard members of my <i>Yongo</i> network as friends.	0.69***			

Figure 2. Structural equation results

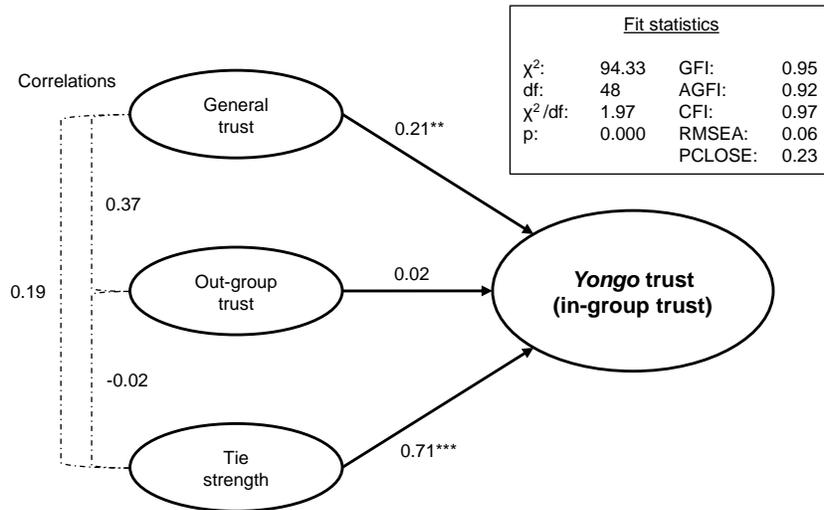


Table 5. Hypotheses tests

Hypothesis	Result
H1: The higher the general trust, the higher the <i>Yongo</i> trust (in-group trust).	Confirmed
H2: The lower the out-group trust, the higher the <i>Yongo</i> trust (in-group trust).	Rejected
H3: The higher the emotional tie strength, the higher the <i>Yongo</i> trust (in-group trust).	Confirmed