Are Informal Networks Predominantly an Emerging Market Phenomenon?

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Abstract
Scholars typically assume that informal networks are predominately influential in emerging markets as they fill voids left by non-existend or disfunctional formal institutions. Further, it is assumed that informal networks disappear with the further development of formal institutions. We challenge the disappearance assumption and argue in favor for the persistence hypothesis (Horak & Klein 2016), by putting forward the case of two persisting and pervasive informal networks in two developed and industrialized countries: yongo in South Korea and jinmyaku in Japan. We conclude that informal networks persist in advanced economies with effective and functioning formal institutions.

Keywords: Informal networks, emerging markets, institutions, informal institutions, informality, networking

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Introduction

As the Global Encyclopedia of Informality shows (Ledeneva 2018), the prevalence and utilization of informal ties, networks and practices in many countries around the world are overwhelming. Informal network research is a continuous and popular theme across the social sciences (Bian 2018, Horak 2018, Horak & Restel 2016, Horak et al. 2019). Management research has debated the dark and bright sides of informal networks (Horak, Afiouni, Bian, Ledeneva, Muratbekova-Touron, & Fey, 2020), and recently, studies in international management have explored how business expatriates cope with obtaining access to informal networks in host countries, and have found that some networks – especially those important for business operations – are difficult for foreigners to join (Horak 2015, Horak & Yang 2016). In the field of economic sociology, scholars suggest that informal networks can help to explain South Korea’s rapid economic development, which has so far been ignored by conventional economic development theory (Lew 2013). From a general sociological perspective, Bian (2018) reviews the literature on informal networks in China (guanxi) and concludes that guanxi is a persistent informal network that has not yet disappeared. Research suggests that informal networks are usually to be found in countries with weak institutions, and may disappear when those institutions become more effective. The sum of recent studies, meanwhile, points towards the possibility that informal networks persist even in developed environments (Horak & Bader 2019, Horak & Klein 2016, Horak et al. 2019).

So far, the majority of informal network research has concentrated on the analysis of structural characteristics of networks such as size, density, centrality, bridging or gatekeeping. Less attention has been given to the nature of ties and the specific characteristics that constitute and shape informal network structures. Traditional network research has been challenged on whether its insights can be generalized or whether it remains context-specific with a Western bias (Horak et al. 2019, Li 2007b, Qi 2013, Sato 2010). Sato (2010 and 2013), for instance, discusses critically the universal applicability of network concepts in East Asian societies, where strong indigenous (i.e., local) constructs of interpersonal relationships exist that are not fully captured by the idea of social capital. Further, Li (2007a) underlines the uniqueness of guanxi, which thus far is the most comprehensively researched informal network in China.

Driven and led by research into guanxi, the field of informal network research is evolving. It increasingly integrates knowledge from non-Western contexts. Today informal networks are assumed to be of greater significance in the coordination of activities within emerging economies,
where formal institutions and their procedures (e.g., courts, contracts, formal rules, law, etc.) are ineffective or non-existent (Jimenez et al. 2017, Peng et al. 2009). This is in keeping with a popular view that, as soon as formal institutions become more effective, informal networks may disappear, as people to draw on ways to coordinate activities that are formal, more reliable and easier to control. However, recent research has shown that informal institutions can persist even in environments in which formal institutions have been firmly established; thus, a thorough understanding of the nature and characteristics of informal networks is important (Bian 2018, Horak 2014, Horak & Klein 2016, Li 2007a).

In this paper, we challenge the disappearance assumption and argue in favor of the persistence hypothesis (Horak & Klein 2016), by putting forward the case of two persisting and pervasive informal networks in two developed and industrialized countries: yongo in South Korea (in the further: Korea) and jinmyaku in Japan.

**Informal Networks: Persistence versus Disappearance Arguments**

Scholars have recently speculated whether informal networks will persist or decline in the future. It has been assumed that the more a country advances economically (i.e., people acquire wealth and goods are available in excess) and the more formal institutions become effective (e.g., reliable courts and enforceable legislation), the less people feel the need to rely on informal relationships (Peng et al. 2008). The role that formal and informal institutions play is regarded central in understanding the dynamics emanating from both. One view is that informal networks will eventually disappear (e.g., Brennan & Wilson 2010, Guthrie 1998, Hutchings & Weir 2006, Peng et al. 2008), while another is that informal networks will persist because they are culturally - not institutionally - driven and culture is rigid and changes only slowly (Anderson & Lee 2008, Hofstede 2007, Van de Ven & Jing 2012, Wong 2007, Yen et al. 2011). The culturalists have a strong argument. They point out that the roots of guanxi are to be found in Confucian concepts such as harmony, hierarchy and relationships (Dunning & Kim 2007; Ho & Redfern 2010; Zhang & Pimpa 2010). It appears likely that the development of formal institutions alone will not make informal networks recede.

In addition to these arguments, a third position can be identified that instead of treating institutions as static constructs takes their dynamic nature into account. This position suggests that guanxi will persist but will adjust to modern times, i.e. to new developments taking place within
the environment (e.g., Horak & Restel 2016, Horak et al. 2019, Ledeneva 2008, Li 2007a). It attempts to integrate the former two ideas, suggesting that guanxi is culturally and institutionally driven. The central question here is not whether guanxi will persist or recede but rather how it will change in nature in the course of institutional developments. Recent research tends to align with this perspective. For instance, Guo and Miller (2010) see traditional facets of guanxi still being applied in China (e.g., gift exchange) but illustrate new forms of guanxi. These include the exchange of information and knowledge. Szeto et al. (2006) argue that guanxi remains important as a means of building up social capital, with the precondition that all relationships are built within a legal or ethical framework.

As this debate is currently ongoing, it remains a matter of speculation as to how guanxi will evolve and what it may contribute to the overall discussion of the development dynamics of informal networks. Nevertheless, since theories should be based on a broad range of evidence, other examples are required to examine whether informal networks disappear in economically and institutionally developed environments. Herein we present two examples, yongo in Korea and jinmyaku in Japan. Both are located in a culturally similar region (i.e., Confucian Asia, comp. House et al. 2004), both are economically and institutionally advanced and both have pervasive and influential informal networks.

**Informal Networks in Korea - Defining Yongo**

Yongo can be described as consisting of affective ties between individual actors that form on an aggregate organizational level; they operate as particularistic and rather exclusive informal networks (Horak 2014, Lew 2013, Yee 2000). The affective nature of yongo in the local context is an important aspect of tie and network cohesion. Furthermore, it can be regarded a central source of identity construction. In Korea, “the individual was always viewed in the context of his affection network” (Hahm 1986: 286) and in this context, it “is nearly impossible (...) to develop and maintain a personal relationship without emotional involvement” (Hahm 1986: 286). Indigenous concepts such as jeong, which is a shared group affect ingrained in Korean society, and woori, a feeling of a need for belonging to a group, define the identity of individuals (Kim et al. 2018; Yang 2006). The English translation of yongo would describe the syllable yon as an affective tie and go as its preexistence due to a shared back-ground. In contrast with, for instance, guanxi, yongo is in principle cause-based, not purpose-based. It is traditionally founded on three preexisting ties: (1)
the educational institution that actors attended, whether isochronous or not (in Korean: *hakyon*, 학연); (2) blood ties, established by belonging to the same family (nuclear and extended) (*hyulyon*, 혈연); and (3) social ties based on the same place of birth (i.e., hometown) (*jiyon*, 지연).

In Korea, these ties are immutable and irreversible; they are quasi-predefined and determined by birth, though *hakyon*-based ties can be seen as an exception today, as the educational institution an individual attends can be freely chosen. However, traditionally, *hakyon* referred to high school ties, which were more fixed because one usually attended high school close to one’s birthplace. Since it is common in Korean society to distinguish sharply between in-groups and out-groups, *yongo* can be regarded as exclusive. It determines whether people belong to an in or out-group. Inside a *yongo* circle, there is “flexibility, tolerance, mutual understanding as well as trust. Outside the boundary, on the contrary, people are treated as ‘non-persons’, and there can be discrimination and even hostility” (Kim 2000: 179). The pillars of *yongo* are to a great extent cause-based. This is not the case with *guanxi* and the Russian *blat/svyazi* networks (Horak & Bader 2019, Horak et al. 2019).

Today, other affective ties may extend or complement *yongo*, such as informal bonds established during military service (e.g., by attending the same military academy), and those developed through gatherings of former co-workers. *Yongo* characterizes trustful emotional ties in Korean society, which are deeply engrained in a Confucian value system (Horak 2014, Kim 2000, Kim & Bae 2004, Yee 2000). Loyalty among its members prevails and it is pronounced. On a dyadic level, for instance, if a senior A and a junior B share *yongo*, and A asks B for a favor, B cannot deny the request as that would be highly unethical and may lead to social sanctions. On a network level, *yongo* works between members who belong to respective camps. Bridging networks (Burt 1995) between members of universities A and B (i.e., *hakyon*-based *yongo*) are against the behavioral norms of *yongo*, as rivalry and competition exist between each camp. Bridging within ties based on *hakyon*, *hyulyon* or *jiyon*, however, is the norm.

*Yongo* is a uniquely Korean social form of organization that has existed from time immemorial. Historical research has shown that already during the Choseon dynasty (ca. 1392–1910), in which the *Yangban* class (Confucian aristocrats representing the societal and governing ideal) ruled, factionalism between *yongo* camps occurred. Sik (2005) reported that the Yangban “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). The three communities that Sik described represent the traditional definition of *yongo* that still prevails in contemporary Korea.

**Informal Networks in Japan – Defining Jinmyaku**

The Japanese term *jinmyaku* (人脈), translated into English, approximates to “personal connections.” The word *jin* stands for “person” and *myaku* is translated into “vein,” as used in the field of geology to specify a vein of mineral deposits, for instance. Having *jinmyaku* is of paramount importance in business and politics and is vital in other aspects of life (Lozano et al. 2017). Members of a *jinmyaku* network support each other in terms of career progression or taking decisions. Having a large *jinmyaku* network consisting of influential members is said to be “a symbol of security and status” (Erez 1992). Establishing *jinmyaku* starts very early. It is a lifetime process that begins at school. While the Japanese are known to be reserved with people they do not know, an introduction by a third person through *jinmyaku* can open doors and help in debates or negotiations when rational arguments alone are not enough to reach agreement (Mitsubishi Corporation 2011).

In business, the development of large *jinmyaku* networks is considered important for decision making, as a source of information gathering external to the firm and for career progression (Gilbert 2003). *Jinmyaku* relationships relate to those inside the firm - with superiors, peers and subordinates - and outside the firm, for example with customers, decision makers in other organizations and government officials. Tactfulness and skill are required to develop *jinmyaku*. Within an organization, the duration of membership, loyalty and seniority play a role, as does caring for subordinates and coaching them. In doing so it is necessary to be sensitive to and negotiate situations appropriately. As is usual in Japanese organizations, decision making and problem solving involve a large amount of informal coordination, information exchange, the involvement of various stakeholders, the reconciliation of interests and negotiation before a formal decision is made. The final decision tends to be a formal consequence of what has previously been agreed informally. A trusted *jinmyaku* network is a precondition for coordinating this process (Suzuki 1989). To complete an important project or task or to progress in one’s career job-related skills are important, but so is a large *jinmyaku* network. Given both, one can strengthen one’s position as a trusted member of an organization.
**Jinmyaku** is a precondition for influencing and reaching decisions. It is applied internally to the firm; also, as the private and business spheres are not separate in Japan, it is used informally after work meetings, for example during dinner or drinks, or at weekends in sports activities with colleagues, superiors, suppliers, subcontractors and other external stakeholders (Dominici & Palumbo 2013; Lozano et al. 2017). External *jinmyaku* is important, for instance, when former (retired) government officials become managers of large businesses. This practice is common in Japan and is known by the term *amakudari* ([天下り], “descent from heaven”), which derives from *ama* meaning heaven and *kudari* meaning descending. Through *amakudari*, the government is able to influence and control decision making in a firm and the firm benefits through close ties to the government through retired bureaucrats (Kevenhörster et al. 2003). This practice has often been equated with corrupt activities as the government officials-turned-managers help to acquire public contracts, delay inspections and ensure various forms of preferential treatment through their *jinmyaku* network within the administration (Suzuki 1989; van Wolferen 1993).

**Why do Informal Networks Persist?**

The examples of *yongo* and *jinmyaku* support the argument that informal networks will likely not disappear at the same speed at which formal institutions develop. Unlike the case of *yongo*, not a great deal of research has been conducted into the nature, dynamics, cultural embeddedness and working mechanisms of *jinmyaku*. Nevertheless, the existence, pervasiveness and continuous importance of both testify that informal networks do not disappear in industrialized economies, and so can be regarded as lasting social structures of cultural significance. They explain in part why Japan and Korea are, often, called relational or network societies. Informal networks tend to persist by being able to adjust to changes in the environment. In the case of *yongo*, for instance, the structure seems to evolve. Today, other forms of informal networking are often regarded as *yongo*, for instance, former co-worker clubs, where former colleagues meet informally, ties that were established upon joining the army, and others. Essentially, independently of the shared base, there is a strong desire to form affective relationships and attach to a group. This is the driving force that allows informal networks to persist in principle.

What other arguments explain why informal networks persist in societies? One may be found in a common response the author frequently receives when conducting field research in Korea: economic progress leads to a higher level of personal competition for resources, benefits,
jobs or career advancement. As companies internationalize, more foreign competition enters the Korean market. Local firms need specialized skills and competencies to stay competitive, and developing innovative products and services requires creative thinking. University education can provide the foundation for acquiring the necessary know-how; however, as more and more young people gain university degrees, it is increasingly difficult to distinguish one applicant from another. According to Organization for Economic Cooperation and Development (OECD) data from 2014, 68% of 25-34-year-olds possess a university degree in Korea. This is the highest number among all OECD countries (OECD 2014), and it has resulted in greater competition among job applicants. Similarly, universities are under increasing pressure to distinguish themselves from each other. They perceive a need to create an elite reputation, and this is often achieved by creating entry barriers to access. In Korea, one of the strongest informal networks is that based on alumni affiliation (i.e., hakyon), and a key criterion in the choice of university is the quality of informal networks the institution can provide. In sum, as getting ahead in advanced economies becomes more and more competitive, informal ties and networks are often seen as a secret weapon in obtaining a good job, building a career, acquiring resources and advancing in society in general.

**Summary and Outlook**

In this paper, we have argued that informal networks may not necessarily disappear with economic development and a strengthening of informal institutions, as has been comprehensively discussed in the case of China. We have put forward the pervasive and influential cases of yongo in Korea and jinmyaku in Japan, two advanced and industrialized countries with highly functioning and effective formal institutions. Hence, informal networks are not confined to emerging markets only. In providing an explanation why these networks persist, we have argued that informal networks are culturally as well as institutionally driven; they evolve dynamically and adjust to changes in the environment. Extending the culture-related perspective, we also suggested that countries that distinguish between in and outgroups are especially driven to maintaining informal networks as identity-defining but also exclusive institutions.

In addition, we pointed out that as countries integrate more and more into the global economy, greater competition for jobs, careers and access to resources (tangible and intangible) results. Hence, exploiting informal ties and networks can be seen as an effective way to achieve success. Further research will not only help us in our understanding of the interactions between
formal and informal institutions, but will contribute to a better knowledge of how organizations might encourage inclusivity, and how societies might prevent the emergence of fragmented and exclusive communities. These broad visions for future research can begin with studies of different informal networks. Recent research indicates that informal network theories have been developed almost exclusively by Western scholars, who have based their ideas on Western ways of thinking. These theories have often not explicitly taken into account the nature and development of informal networks elsewhere in the world. Though there has been research conducted on svyazi (in Russia), wasta (in the Middle East), or jeitinho (in Brazil), for theories to develop towards generalizability, a more integrative and holistic understanding about informal networks has to be developed.

References


