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Informal Networks

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Encyclopedia of International Strategic Management

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45. Informal networks

Definition and framing

Informal networks are formed by informal ties between actors. They can be defined as channels embedded in the respective culture that provides the general behavioral norms and ideals for interpersonal exchange. Network members have the privilege of access to favors. They can rely on mutual support and goodwill and the sharing of opportunities, which gives them a relational advantage over non-members (Minbaeva et al., 2022; Horak et al., 2020). While informal networks exist in every country, they differ in their extent, intensity and shape. Typical examples of informal networks include *guanxi* (China), *yongo* and *inmaek* (South Korea), *wasta* (Arab world) or *blat* and *svyazi* (Russia and the post-Soviet states).

By contrasting and comparing informal and formal networks, Minbaeva et al. (2022) describe informal networks as having a tendency to form as biographical by-products than purposefully accumulated social capital. While informal networks have unique characteristics, many tend to be affective in nature but simultaneously instrumental in usage. Often, they are based on affect and/or a common base first and are instrumentalized later. Affect and a common base can lead to ad hoc trust that is granted to personally unknown network members and can be rooted in having attended the same educational institution (e.g., high school or university) or originating from the same city or region, amongst others (Horak, 2014; Luo, 2020).

Typical of informal networks is their ambivalence, as they have strengths and weaknesses. While some see informal networks as a source for cronyism, favoritism or corruption, their strengths are often overlooked. They play an important role in organizations and in society. Through informal networks, tasks can be more quickly executed so that transaction costs can be reduced. Due to peer pressure, they efficiently curtail free riding and opportunism. Empirical research shows that they help to improve organizational performance (Peng & Luo, 2000).

Selected examples of informal networks

Among the many informal ties and networks that are known (for an overview, see Ledeneva, 2018), prominent examples include *guanxi*, *wasta* and *yongo*. These are culturally embedded social structures that characterize important relationships in the respective society. For cultural outsiders, they are not easy to understand and are in general difficult to define. Nevertheless, *guanxi* can be described as a personalized connection between people that are subjectively close and potentially resourceful. With the economic rise of China and its institutional development, scholars assumed that people would draw less on informal *guanxi* ties, but empirical studies have proven that *guanxi* has not lost its power today (Bian, 2019). In business, a company cannot go far unless it develops an extensive *guanxi* web to draw upon for support and favors (Luo, 2020). In Arab countries, *wasta* is described as a way of life for Arabs. It is a relational contract that obliges relatives (family, clan, tribe or sect), close friends or acquaintances to provide favorable treatment to group members. *Wasta* pervades many aspects of life in Arab countries. In business, when it comes to recruitment and promotions, *wasta* can be more influential in decision-making than a candidate's competence and fit to the position or past job performance (Alsarhan et al., 2021). Since family, clan, tribe or sect membership defines group membership and who benefits from *wasta*, an important question in international management remains how foreign managers, i.e., expatriates, can manage effectively in Arab countries when the chances of becoming an ingroup member are low. The latter question is also relevant in relation to *yongo* networks in South Korea. While the word *inmaek* describes a conventional social network, *yongo* is distinct. The term is used to describe "personal relationships in Korea that are attached to an affiliation to an informally organized group. (...) *Yongo* derives its main cohesion power from strong particularistic ties, based on kin, educational institution (school/university) and region" (Horak, 2014: 87). These ties are seen as immutable and irreversible as one is quasi born into these ties (education-based ties are an exception). Loyalty between *yongo* ingroup members is higher than an employee's loyalty towards

a corporate code of conduct and, similarly to *wasta* ties, a foreign manager will not be able to acquire *yongo* and engage in *yongo* networking, which can have serious implications for expatriates' job performance and wellbeing.

Informal networks are therefore vital for firm relational strategies that translate into competitive advantage, as shown by Lee et al. (2022). Typically, subsidiaries of multinational corporations (MNCs) operating abroad face the challenge of becoming socially integrated in a foreign environment. This is necessary to receive market- and competitor-relevant information, establish cohesion within distribution or supply chain channels, understand sociocultural trends early or develop a connection to the respective government, among several other items where informal relationships help to facilitate the exchange or are a precondition for a business relationship. Since networks differ in their openness and accessibility for outsiders, Lee et al. (2022) suggest, by using the example of *yongo* networks in South Korea, that MNCs either consider a proactive or reactive strategy or a mix of both. In a nutshell, a reactive strategy would focus on hiring and harnessing a local manager's *yongo* network. While this may temporarily solve the problem, there is a risk of losing the relational network once the manager leaves the firm, and there is also a high dependence on the manager making the firm dependent. A proactive strategy is a long-term strategy that refrains from taking advantage of *yongo* ties and instead develops its own instrumental ties based on a firm's competitive strength and reputation by deeply engaging with local institutions. This may take time, but the dependence on single managers would be reduced. Utilizing both approaches in parallel and shifting at a later stage from a reactive to a proactive strategy may be an option to optimally take advantage of local informal networking opportunities.

SVEN HORAK

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