# INFORMAL, FORMAL, OR HYBRID - HOW EXPATRIATES IN EUROPEAN MNC SUBSIDIARIES IN SOUTH KOREA MANAGE HIERARCHY TO ENHANCE ORGANIZATIONAL AGILITY

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**Abstract.** We examine managerial practices in the South Korean subsidiaries of European multinational companies (MNCs) to understand how they navigate hierarchical structures during periods of organizational transition. Drawing on an institutional perspective, we explore the nature of hierarchy and the interplay between different forms of hierarchy in enabling more agile organizational structures. This study employs a qualitative research design based on 32 in-depth interviews with expatriates in top- and middle-management positions in European subsidiaries operating in South Korea. Our findings suggest that organizational hierarchy should not be understood solely as a formal structure. Rather, as an institutional construct, hierarchy can encompass both formal and informal elements that interact in dynamic ways. These interactions often lead to hybridization across a continuum, prompting us to propose the concept of organizational hierarchy as a *hybrid institution*. Existing research has highlighted a gap in understanding how informal institutions interact with formal ones within organizational hierarchies. Our study addresses this by showing that informal institutions can reinforce hierarchical structures aligned with societal norms while undermining those that deviate from them, producing both functional and dysfunctional effects.

**Keywords.** Agile Organization, Change Management, Cross-cultural Management, Formal Institution, Hybrid Institution, Informal Institution, MNC Subsidiary, Organizational Hierarchy, Social Hierarchy.

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## Introduction

Despite technological disruption and rapidly changing business environments, multinational companies (MNCs) are driven to adopt organizational structures that balance the dual pressures of global integration and local responsiveness (Bartlett and Ghoshal, 1989). Organizational agility is a key concept in this context as it relates to an organization's ability to adapt to dynamic environments (Sherehiy and Karwowski, 2014). The rationale behind agile organizational structures, often characterized by flat hierarchies, has been explored in previous studies (see, for example, Paluch *et al.*, 2020; Junker *et al.*, 2022). However, implementing organizational agility is challenging, especially when it involves subsidiaries of a multinational company (MNC) operating in institutional contexts different from that of the corporate headquarters. Driven by legitimacy-based motives, MNC subsidiaries face isomorphic pressure (DiMaggio and Powell, 1983) from both headquarters and the host country. Headquarters seek to leverage organizational capabilities worldwide (Ghoshal and Bartlett, 1989), driving subsidiaries toward global integration. Simultaneously, host country institutional environments may impose constraints that force subsidiaries to adapt locally (Rosenzweig and Singh, 1991). Consequently, MNC subsidiaries must navigate conflicting isomorphic pressures from global to local and from local to global (Rosenzweig and Singh, 1991).

In this study, we focus on foreign subsidiaries of European MNCs, particularly from an Asian management perspective. Our primary interest lies in cases where MNC headquarters aim to reduce hierarchy in their East Asian subsidiaries and establish an agile organizational structure. The significance of hierarchy and the preference for hierarchical structures vary by country, as reflected in the differences in power distance among countries (House *et al.*, 2004).

Recent work has primarily focused on the formal aspects of organizational hierarchy (Joseph and Gaba, 2020), traditionally defined as the vertical integration of units, outlining reporting relationships and spans of control (Hall, 1982). However, hierarchy can also be understood through an institutional lens, encompassing formal or informal dimensions (Jackson and Deeg, 2019; North, 1990; Peng, 2016). Depending on the extent of institutional variance, hierarchy can cause organizational structures in the host country to diverge from home-country models. In high power-distance nations, such as many in Asia, inequality is viewed as natural, making respect for hierarchy and order compliance the norm (Adler *et al.*, 1986; House *et al.*, 2004). Consequently, how an MNC manages organizational hierarchy, considering power, status, and group privileges, significantly influences the subsidiary's legitimacy with local stakeholders (Diefenbach and Sillince, 2011).

Given that MNC subsidiaries operate in diverse locations, they frequently face tension and complexity in pursuing legitimacy across various parts of the organization (Kostova and Zaheer, 1999). This poses a significant challenge for MNCs: if headquarters adopt an agile organizational structure, how can it be effectively transferred across different institutional contexts? It remains unclear how MNCs manage the dual pressure of pursuing agility sought by headquarters while allowing for variation in local structures. This challenge is particularly critical in East Asia, where pronounced social hierarchy (i.e., power distance) requires Western MNCs to navigate different perceptions and reactions to hierarchy.

In addition, the dynamics of informal hierarchy remain less explored (Joseph and Gaba, 2020; Magee and Galinsky, 2008), particularly within the Asian management context. Hence, we have limited knowledge on how formal and informal hierarchies relate to and interact with each

other (Diefenbach and Sillince, 2011), and how this interaction shapes organizational hierarchy in MNC subsidiaries striving for agile and flat structures.

To address the existing knowledge gap concerning the nature of informal institutions and the interactions between various types of hierarchy, we examine the managerial practices dedicated to the adaptation of agile organizational structures of European MNCs in South Korean subsidiaries (named "Korean" in the remainder of this paper). We conduct in-depth interviews with business expatriates who play a crucial role in the organization, operation, and performance of a subsidiary, as they develop strategies, maintain connections with headquarters, facilitate information exchange, and conduct social control (Cerar *et al.*, 2022; Harzing, 2001). Our study addresses five research questions (RQs): What are the typical features, and the positive and negative aspects, of formal (RQ1) and informal (RQ2) hierarchies in an MNC subsidiary? Where do formal and informal hierarchies intersect, and how are they interrelated (RQ3)? What are the advantages and disadvantages of hierarchies (RQ4), and what are effective solutions for managing hierarchy-related challenges with respect to agility (RQ5)?

This study contributes to the theory of formal and informal institutions by examining organizational hierarchy. We explore how isomorphic pressures shape hierarchies in foreign subsidiaries of MNCs, where home-country ideals and local practices converge or conflict. Notably, isomorphic pressures do not always lead to convergence in management systems; they may result in divergence or an in-between state of hybridization, a dynamic interplay between convergence and divergence (Ansari *et al.*, 2014, p. 1314), which can be either functional or dysfunctional. Recognizing the importance of both formal and informal institutions (Jackson and Deeg, 2019), we focus on their role in the hybridization process, addressing whether they become functional or dysfunctional, and examining how organizations manage the conflicting isomorphic

pressures between maintaining practice integrity and allowing for variation (Ansari *et al.*, 2014) at the intra-organizational level. In interpreting hierarchy as a hybrid institution, we respond to the recent call by Aguilera and Grøgaard (2019) for research that seeks to better understand the nature of formal and, especially, informal institutions and their interplay. Additionally, we contribute to the knowledge of hierarchy management at the MNC subsidiary level by offering a micro-foundational perspective, as recommended by Meyer *et al.* (2020).

In the following sections, we first present the theoretical framework, focusing on formal and informal institutions. We discuss the role of isomorphic pressures and informal institutions in shaping institutional configurations, linking these to agile organization. We then explain our methods and present our findings, integrating results into existing theory, offering practical insights for international human resource management (IHRM), and suggesting future research directions.

## Theoretical framework

### *Institutions, isomorphic pressures and hybridization*

While it is undeniable that ”institutions matter” (Jackson and Deeg, 2008), there remains a need for greater clarity around institutional concepts (Aguilera and Grøgaard, 2019, p. 31). Institutions have both formal and informal aspects (Scott, 2008), which represent both opportunities and constraints that shape companies’ behavior (Kafouros *et al.*, 2022). Formal institutions have rules, regulations, and official documents such as explicit organizational charts that can be codified (North, 1990). In contrast, informal institutions are deeply embedded within societies, often implicit or even invisible. These informal institutions can endure over time and may have a regulatory effect similar to that of formal institutions (Minbaeva et al., 2023). For example, in their study on best practice implementation in MNC subsidiaries and local firms in Korea, Horak and

Yang (2019, p. 1419) point out that respect for seniority (a type of informal institution) can place a company's HRM system "in a state of hybridization", causing certain HRM practices to become dysfunctional. For analytical purposes, both formal and informal institutions can be classified on a continuum. They may interact and their interplay may lead to diverse outcomes, making it critical to understand what configuration is needed to make them work when isomorphic pressures are intense.

Prior studies have highlighted that the ability to implement headquarters' practices in foreign subsidiaries is crucial for developing or sustaining a competitive advantage (Fenton-O'Creevy and Gooderham, 2003). Therefore, foreign subsidiaries experience isomorphic pressures to align with their headquarters (Rosenzweig and Singh, 1991), often adopting structures and ideals similar to those at headquarters. In practice, however, this alignment often fails (Horak and Yang, 2019) due to local influencing factors representing different ideals and approaches. This cultural and institutional misalignment can lead subsidiaries of MNCs to experience isomorphic pressures that "force one unit in a population to resemble other units that face the same set of environmental conditions" (DiMaggio and Powell, 1983, p. 149). Hence, isomorphic pressures can hinder the effective transfer of management practices from headquarters to foreign subsidiaries (Ansari *et al.*, 2010).

They can exert dual influences, from global (e.g., headquarters) to local (e.g., subsidiary) and from local to local (e.g., subsidiary to local firm). When different systems operate in similar environments, they may converge and become similar through isomorphism (Kostova and Roth, 2002). Conversely, divergence suggests that strong cultural forces enable local management approaches to prevail with minimal change (Brewster, Wood, and Brookes, 2008). A different position, or hybridization, represents a blend of convergence and divergence, and stands for a

combination of local and headquarter approaches, occurring as "a dynamic, contested and emergent process" (Ansari *et al.*, 2014, p. 1314) during the transfer of policies and practices from MNC's headquarters to foreign subsidiaries.

Over time, hybridization is often seen to lead, either through trial and error or experimentation, to an alignment of approaches that better fit the local environment (Budhwar and Debrah, 2008; Dowling and Donnelly, 2013; Horak and Yang, 2019). However, while hybridization is essential for balancing local and foreign systems, it carries risks, as it does not always lead to functionality but can yield dysfunctional outcomes (Chan and Peverelli, 2010) and hinder organizational goals (Amason, 1996; Massey and Dawes, 2007) when negotiations between local and foreign approaches fail to achieve a compromise or balance. Little is known about the micro-foundational factors that resist functional hybridization (Gamble, 2003, 2006; He and Huang, 2011; Kuehlmann, 2012). Here, we believe informal institutions play a crucial role.

*Hierarchy, authority, and agile organizational structure*

Organizations are frequently structured as group-based hierarchies (Diefenbach and Sillince, 2011), often taking the shape of a pyramid (Nelson, 2001). An organizational chart illustrates how hierarchy is intrinsically linked to an authority structure, with individuals in higher positions having greater power (Krackhardt, 1990; Whetsell *et al.*, 2021). Magee and Galinsky (2008) point out that "hierarchy is an implicit or explicit rank order of individuals or groups with respect to a valued social dimension" (p. 6). While high-ranking members have greater power over lower-ranking members, hierarchy tends to be self-reinforcing from both top-down and bottom-up. Prior studies have extensively examined formal hierarchy, including job titles, reporting relations, and organizational charts. Once established, formal hierarchy can be costly to change (Magee and Galinsky, 2008), potentially hindering organizational agility.

The relationship between institutions and hierarchies lies in the fact that institutions encompass a broader range of formal and informal structures, with hierarchies as part of these structures. Like institutions, hierarchies can be both formal and informal, shaped by institutional arrangements that vary according to the specific institutional context. Hierarchy is inherently linked to formal and informal authority structures, showing who has power over whom (Biddle, 2013). For example, in Korea, hierarchy and authority structures are shaped by respect for seniority, rooted in Confucian values and norms (Horak and Yang, 2019). Formal hierarchy is thus reflected through organizational charts and the Korean job title system, while informal hierarchy grants older employees and senior managers more authority over their younger counterparts.

Informal hierarchy can be understood as a form of differentiation, a common human trait (Leavitt, 2004) and an "unavoidable reality of group life" (Bunderson *et al.*, 2016, p. 1265). It allows individuals or groups to influence others' behaviors and actions, impacting their function (Anderson and Brown, 2010). This does not necessarily require formal authority or power structures (Bales *et al.*, 1951; Heinicke and Bales, 1953). Informal hierarchy is an important and prevalent aspect of group dynamics (Oedzes *et al.*, 2019), shaped by norms, values, and verbal and nonverbal behaviors that foster group cohesion and determine boundaries (Diefenbach and Sillince, 2011). Additionally, factors such as ethnicity, gender, and social class also define group membership and within-group hierarchy (Ridgeway *et al.*, 1998).

Regarding the developmental dynamics of hierarchy, prior studies present inconsistent findings. Some scholars argue that hierarchy in companies is highly persistent (Parker, 2009), while others suggest that it is diminishing (Kastelle, 2013). The current business environment is characterized by volatility, uncertainty, complexity, and ambiguity (VUCA) (Bennett and Lemoine, 2014; Horak *et al.*, 2019). In response, many companies strive for agility to adapt

effectively to these changes. Organizational agility—the ability to remain flexible and adaptive in the face of new developments—is increasingly recognized as a competitive advantage in achieving success (Nijssen and Paauwe, 2012; Harsch and Festing, 2020).

Organizations that can effectively balance stability with adaptability are better equipped to thrive in turbulent environments (Aghina *et al.*, 2015; Felipe *et al.*, 2016). However, the challenge lies in knowing when and to what extent agility is needed to manage change cost-effectively (Teece *et al.*, 2016), as agility is closely linked to organizational design. For MNCs, cultural differences between home and host countries further complicate the implementation of hierarchy-related changes at both headquarters and subsidiary levels.

A flat organizational design is characterized by limited hierarchy, low process regulations, and minimal planning and control systems. These elements are seen as essential for achieving high agility (Dyer and Shafer, 2003; Nijssen and Paauwe, 2012). However, MNCs face the liability of size. With a large number of employees, coordinating activities is more complex than in smaller organizations. Steep multilevel hierarchies hinder agility as coordination efforts increase on a global scale. In contrast, flat structures enhance communication, promote knowledge sharing in multicultural teams, and enable faster decision-making and responsiveness to market changes. While these insights primarily relate to formal hierarchies, the impact of an informal hierarchy on organizational agility remains unclear.

**Methods**

We analyzed the implementation of agile organizational structures in the subsidiaries of European MNCs in Korea for three reasons. First, the European Union, along with Japan and the United States of America, are the top three largest foreign investors in Korea, with the Netherlands, Germany, France, and Hungary being the largest European investors (European Commission,

2024). Consequently, German and French MNCs, with their significant presence and influence, are the primary focus of our research. Second, prior research has seldom studied a diverse range of European companies in Korea. Existing data on foreign MNCs in Korea primarily focus on German, Dutch, and British companies (see, for example, Horak and Suseno,2023; Horak and Klein, 2016; Horak and Yang, 2016). Our study enriches the field by incorporating French subsidiaries, highlighting how European MNCs manage organizational structure changes in their Korean subsidiaries and navigate the tension between standardization and adaptation. Third, Korean culture is strongly influenced by Confucianism, characterized by respect for seniority and hierarchy (Horak and Suseno, 2023), and an emphasis on teamwork and harmony (Horak *et al.*, 2020). Investigating European subsidiaries, particularly German and French MNCs in Korea, allows us to demonstrate the intricate interplay between the willingness of headquarters to implement agile organizational structures and the challenges faced by subsidiaries in doing so.

Since our research is exploratory, we adopt an inductive research design (Bansal *et al*., 2018) within an interpretivist paradigm (Bonache and Festing, 2020). We conducted semi-structured, in-depth interviews with experienced professionals to gather insights into perceptions, attitudes, and beliefs regarding formal and informal hierarchies, and the processes aimed at reducing them to enhance organizational agility. The interviews also helped identify emergent and repeating themes within organizations (Eisenhardt and Graebner, 2007). Our unit of analysis is hierarchy, from which we derived five research questions (RQs) outlined in the introduction.

*Sample*

Data collection took place among European MNCs located in the greater Seoul area, the capital of Korea. Korea is an optimal environment for our research, as hierarchies (both social and organizational) are highly valued. Using a purposeful sampling strategy (Bryman and Bell, 2019),

we selected respondents with the relevant knowledge and experience (Cresswell and Plano Clark, 2011). Key informants were chosen based on criteria from Marshall (1996), including their experience, position, knowledge of the topic, availability for interviews and follow-ups, and openness to share their perceptions and experiences. Suitable interview partners were identified with the support of the French-Korean Chamber of Commerce and Industry (FKCCI) and the Korean-German Chamber of Commerce and Industry (KGCCI).

Data were collected in three waves: 2016, 2018, and 2019. There were two main reasons for collecting data over three time periods. First, it was challenging to find a sufficient number of participants with the relevant experience who were willing to share their practices, for example, regarding the removal of titles within the hierarchical system. Second, collecting data over three periods allowed us to observe the persistence of informal institutions, such as hierarchy, over time.

The companies in this study were selected based on two criteria. First, each company has a significant presence in Korea as industry leaders, characterized by large size, global reach, and complex hierarchies. Second, the companies accepted our interview requests. All participants were expatriates working in middle- to top-management roles at French or German MNC subsidiaries. The majority (approximately 60%) were fluent or at an intermediate level in Korean. In total, 32 interviews were conducted (see Table 1). Each interview lasted one to two hours. As the participating companies operated in different industries, we ensured a diverse sample to minimize bias in our subject pool.

**Table 1.** *Overview of Interview Partners*

| *ID* | *Position* | *Industry* | *HQ location* | *Nationality* |
|---|---|---|---|---|
| FM-A01 | Manager | Service | France | French |
| FM-B02 | Manager | Automotive | France | French |
| FC-C03 | CIO* | Insurance | France | French |
| FM-D04 | Manager | Cosmetic | France | French |
| FM-E05 | Manager | Automotive | France | French |
| FV-F06 | Key Account Manager | Food | France | French |
| FM-G07 | Manager | Textile | France | French |
| FM-H08 | Manager | Trading | France | French |
| FD-K09 | Director Marketing | Food | France | French** |
| FM-L10 | Manager | Insurance | France | French |
| GP-L11 | President & CEO | Chemicals | Germany | German |
| GP-M12 | President | Service | Germany | German |
| GP-N13 | President & CEO | Automotive | Germany | German |
| GC-O14 | CEO | Imaging | Germany | German |
| GMD-P15 | Managing Director | Service | Germany | German |
| GD-Q16 | Director | Multi | Germany | German |
| GP-R17 | President | Trading | Germany | German |
| GC-S18 | CEO | Service | Germany | German |
| GP-T19 | President | Automotive | Germany | German |
| GM-U20 | Manager | Multi | Germany | German |
| GD-V21 | Director | Leisure | Germany | German |
| GMD-W22 | Managing Director | Logistics | Germany | German |
| CF-F23 | CEO | Finance | France | French |
| DC-C24 | Director | Consulting | France | French |
| CA-A25 | CEO | Aerospace | France | French |
| CF-F26 | CEO | Food | Switzerland | Swiss |
| CP-P27 | Marketing Manager | Cosmetic | France | French |
| GL-L28 | General Manager | Luxury | France | French |
| HF-F29 | Head of Marketing | Food | Switzerland | Swiss |
| CF-F30 | CEO | Electrics | France | French |
| CF-F31 | CEO | Finance | France | French |
| CC-C32 | CEO | Consulting | France | French |

*Notes:* * Chief Information Officer **Interview conducted at HQ

*Interview procedure*

The interview instrument was originally created in English. One of the authors, fluent in both German (native level) and English, translated the English version into German and pilot-tested it with two German speakers to ensure clarity and content consistency. A professional translator

provided the French version, which was then back translated by one of the authors, who is bilingual in French and English.

During the interviews, participants were asked to share their experience related to hierarchy. This open storytelling was followed by an assessment of the pros and cons of hierarchy, as well as the challenges and difficulties they encountered. To gain deeper insights, interviewer interventions, derived from the critical incident technique (Druskat and Wheeler, 2003; Flanagan, 1954), were used to clarify responses. This involved asking interviewees to describe challenging situations and their contexts in greater detail. Typical follow-up questions included, for instance, "How did you perceive this situation?" or "What actions did you take?"

The interviews were recorded, if permitted; otherwise, detailed notes were taken and processed immediately afterwards. At the end of each interview, we immediately summarized the key points and asked the interviewees for confirmation (Silverman, 2006). The interviews were conducted in the interviewees' native language, either French or German, as the authors are bilingual in German, French or English. Confidentiality was assured at the beginning and end of each interview, as all participants preferred to remain anonymous due to the sensitivity of the subject.

*Data analysis*

Based on the research questions, the data were initially structured into predefined themes: (1) formal hierarchy, (2) informal hierarchy, (3) formal and informal hierarchy interrelatedness, (4) advantages and disadvantages of hierarchy, and (5) ways of managing hierarchy. From the primary data, first-order and second-order themes were derived, from which generalized aggregated dimensions were finally drawn (see also Saldaña, 2013; Gioia *et al.*, 2013). For instance, when participants mentioned "job titles, rank, or organizational chart", we used the theme "formal

hierarchy" to group them. When participants indicated "seniority", we placed it in the theme "informal hierarchy". Throughout the analysis, coded text was clustered to reveal patterns at each step.

To address the potential cultural biases affecting coding reliability, the co-authors took special care in developing a culturally relevant and sensitive coding scheme collaboratively (Miles *et al.*, 2014). Divergent interpretations were discussed and reconciled throughout (MacPhail *et al.*, 2016; Stemler, 2004). Each author independently reviewed, coded, and analyzed the data, enhancing the validity and reliability of qualitative findings through cross-coding (Creswell and Miller, 2000). This iterative process involved constant comparison to refine and validate the findings (Glaser and Strauss, 1967). The final data structure is presented in Tables 2, 3 and 4 (see Appendix A for samples).

To ensure external validity and accuracy, we independently and asynchronously discussed our interpretations of data generalizations with interview partners after data collection was completed, making corrections as necessary (Stuart *et al*., 2002). To reduce bias and enhance validity, we applied triangulation methods (Jack and Raturi, 2006), using varied interview questions to explore the same phenomena from multiple perspectives, which helped confirm our insights from different angles. To avoid reliance on a single data source, we interviewed participants across different organizational levels, from top to lower-ranked managers, and incorporated literature triangulation by comparing our findings with established research. We also employed methodological triangulation (Eisenhardt, 1989) by integrating additional data sources where available, such as company websites, follow-up emails, brochures, and observations during office visits. These supplementary sources provided further insights into corporate culture, values, and management practices. By using these measures, we regard our findings as reliable. Data

saturation was reached after approximately two-thirds of the interviews, as no new codes emerged (Bowen, 2008).

## Results

### *Hierarchy—Formal, informal, and interrelated*

While flat organizational structure and organizational agility are typically prevalent or at least widely regarded as advantageous in MNCs operating in dynamic environments, we were interested in how expatriates from European MNCs perceived hierarchy within their foreign subsidiaries. We asked our participants about their perception of formal and informal hierarchies, as well as situations where these hierarchies intersected. In the case of Korea, we found it challenging to clearly separate formal from informal aspects of hierarchy, as the two are intricately interwoven, which we will illustrate in this section, complemented by explanatory literature-based insights into Korean culture.

**Formal hierarchy.** Our primary interest centered on how expatriates perceived the strengths and key features of formal hierarchies. The major topics that emerged in response to this theme included job titles, etiquette, reporting structures, and behavioral norms for lower-ranked employees. Job titles strongly reflect formal hierarchy and are highly valued by local employees, but expatriates often criticize them as a primary source of organizational inefficiency that hinders organizational agility. Job titles such as team manager, country head, general manager, or director carry significant importance for employees, as they signify status and influence both within the company and in external social circles (e.g., family, friends, alumni). Higher-status titles grant authority and preferential treatment, with promotions expected every two to three years, leading to title inflation. Promotions are often not based on objective performance criteria. Taking these arguments into account, many MNCs attempt to abolish hierarchical job titles to flatten the

organization and enhance agility. However, as one expatriate reported, this shift is easier said than done:

> We once had the policy to abolish hierarchical job titles, but that failed. Employees just ignored it. So, we reintroduced the traditional job titles. Job titles indicate seniority, hierarchy, and privileges that seniors have over juniors. That is something very cultural. It was not possible to change that with a new corporate policy. Even staff at Starbucks in Korea address each other with hierarchical job titles followed by the name. This fact taught us that it is something very important (GP-L11).

Managers with less hierarchical job titles received different treatment and are addressed in a distinct manner. The language used by subordinates to address superiors differs from that used among peers at the same hierarchical level. In the Korean context, subordinates are expected to pay attention to their superiors, as one expatriate reported: "The Korean subordinates would always open the door for me and let me in first" (FC-C03).

Furthermore, Korean organizations have clear rules regarding reporting procedures, whether for discussing new ideas, improvement proposals, or daily business affairs. These procedures are often viewed as inflexible and anti-agile, as one interviewee pointed out:

> In my company, whenever someone needs to report or propose something, they can only present their ideas to their direct manager, who then transfers the information to the next level in the hierarchy. This is the rule we must follow (FM-D04).

A key barrier to achieving organizational agility is the role of lower-ranked employees. Many perceive these employees as not being incentivized to fully leverage their potential. A typical response was as follows:

> Koreans are very used to receiving instructions from the top… They are not used to making proposals to improve work efficiency. They respect whatever is given to them and they just need to implement the top managers' ideas (CA-A25).

A French expatriate used a comparative approach to discuss the ideals of behavior in hierarchical relationships in Korea and France. Interestingly, managers' international experience

did not seem to result in a different management style. This was interpreted as reflecting the strength of prevailing ideals in the Korean environment, which is less responsive to a deviation in individual behavior:

> (…) in France, if I don't agree with my manager's opinion, I would say, 'Look, I don't agree with you because …; I think we should do it differently, like this …' In France, this is appreciated because proposing ideas is seen as a way to ensure better results. In Korea, my manager considers this as a personal attack (…) I never intend to challenge his ideas. I just want to share my ideas. The most ironic part is that this Korean had previously worked in France, but when he came back to Korea, he adopted the Korean way (FD-K09).

Based on the interviews, there was a broad consensus that Confucian culture may explain the preference for hierarchy. In addition, interviewees pointed to factors such as limited individual freedom, a strong focus on interpersonal relations, and an overarching sense of collectivism. Another key reason mentioned was military service and military-style leadership (i.e., strictly top-down decision-making) and behavioral norms, coupled with a male-dominated business culture. In Korea, only men are required to mandatorily serve in the military, which coincides with the low representation of women in leadership positions (Patterson and Walcutt, 2014): "If you look at the history of *Chaebol*[1], there is a military-like culture in organizations. Employees' military service has a strong impact on their formal behavior in organizations" (FM-E05).

In short, formal hierarchy is strongly evident in Korea, reflected in the strong preference for hierarchical job titles and the associated status that comes with them. Formal hierarchy is reinforced by strict, unidirectional reporting structures and an environment where lower-ranked managers are discouraged from challenging superiors and are expected to remain passive unless directly asked. Personal initiative is often viewed as disrespectful rather than encouraged. In addition, informal aspects of hierarchy, such as etiquette and behavioral norms, i.e., how to

[1] *Chaebol* refers to a business conglomerate system in South Korea, multinational companies that have huge international operations and play important roles in contributing to Korean GDP.

communicate with superiors and behave as a subordinate, are closely intertwined with and supportive of formal hierarchy. Confucian ideas of how personal relationships should ideally be organized may explain the acceptance of these hierarchies. Overall, expatriate managers perceived the idealization of formal hierarchy in Korea as very different from the practices at their European headquarters.

In the next section, we further explore the link between informal dimensions and the interrelatedness of hierarchy. Additional representative quotations related to formal hierarchy are presented in Table 2.

**Table 2**. *Formal Hierarchy*

| *Critical theme* | *Second-order construct* | *Representative quotation* |
|---|---|---|
| Formal hierarchy | Job title | At headquarters, I feel great because I do not feel pressure related to hierarchy. Colleagues call each other by their first names. In Korea, we should address others based on their job positions. Immediately, you feel a distance between yourself and others. We try to change this hierarchy phenomenon in Korea. For instance, we use English names. However, some people are not used to this, and they still consider it legitimate to address people according to their hierarchy (FM-G07). |
| | Behavioral norms/ etiquette | It is very bad to leave the office before the manager does (FM-A01).<br>How to get into a room shows your hierarchy in the company. For example, I am the chief information officer. With my subordinates, we walk to the meeting room together. I do not need them to open the door for me. (FC-C03).<br>I address my direct manager by her first name, and she does not like this (FM-D04). |
| | Reporting structure/ anti-agility | My direct manager said: It is not possible for you to report directly to the CEO without my authorization. There is a procedure to report, and you must obey it (FV-F06). |
| | Rank/ self-initiative | For me, this is a big challenge, being French working in Korea. I am used to expressing my opinions and taking initiatives to improve the results. However, my Korean big boss commented to my direct manager, asking my direct manager to request me to stop giving an opinion because this is not the way of doing it in Korea (FM-D04).<br>In the Korean education system, students should listen to teachers without doubting or giving a personal opinion. Participation in class is not important, even for a language course. There is no employee voice. Koreans are very used to receiving instructions from the top, and they do not know how to take the initiative. They are not used to making proposals to improve work efficiency. They respect whatever is given to them, and they just need to implement top managers' ideas (FM-H08).<br>When I first arrived in South Korea, I was a trainee. A supplier contacted me because he judged that the machine did not work properly. I wrote an email to the production director to report this fact to him. He wrote back to |

| | |
|---|---|
| | me and questioned in anger: "who are you, and why did you write to me directly?" Luckily, at that time, the French boss explained to him why I did this and helped me out, or I would have been fired immediately. In fact, what I should have done at that moment was to report this fact to my line manager (FM-E05). |
| Military-inspired hierarchy and behavior | In the big Korean companies, male employees in general have military experience, and they are used to a precise hierarchy with clear ranking and orders, which can be found in the military service. There is a strong impact of military management on companies, particularly the working behavior. When all the male employees have military service for 2 years, I think they will not forget this experience easily, and they continue to adopt military ways at work (FM-B02). |

**Informal hierarchy.** We explored how expatriates perceived the strengths of informality in relation to hierarchy and its main characteristics. Our findings highlight the continued importance of seniority as an informal source of hierarchy, often in combination with culture-specific elements, such as *yongo*[2] networks or *hoesik*[3] culture, which we will explain below.

The role of seniority in relation to age differences in Korean management has been controversial. One branch of management research suggests that the influence of seniority is declining due to the rise of pay-for-performance systems and diminishing respect for elders among younger generations (Chang, 2006; Chung *et al*., 1997; Sung and Kim, 2009). Another branch of research finds that seniority is still a key factor in determining compensation levels and promotion (Tung *et al*., 2013). Nevertheless, as seniority is increasingly questioned, many Korean firms are experimenting with international best practice while still continuing with the seniority system, an integral cultural characteristic that cannot simply be replaced by individual pay-for-performance systems through policy changes alone (Horak and Yang, 2019). The interviewees clearly confirmed the pervasive and pronounced influence of a seniority-based hierarchy in both business

[2] *Yongo* refers to a typical informal network type in Korea based on affiliation to a certain group. This is traditionally from the (extended) family, to university alumni, and regional/hometown ties. Today, the affiliation base expands and *yongo*-like ties are developed to former workplace colleagues (corporate alumni ties) or to people one served with in the military (Horak and Park, 2022).

[3] *Hoesik* refers to after-work dinner and drinks with co-workers and supervisors.

and society as a whole. As a result of our interviews, we identify seniority as a persistent, informal factor of significant influence, granting individuals the power to direct or command others. Our findings contribute to understanding the cultural factors that sustain a seniority-driven hierarchy.

Seniority plays an important role in fostering an affective community in Korea (Horak, 2018; Lee *et al*., 2021). Understanding Korean social relationships requires recognizing the significance of affective ties and community bonds (Atay *et al.*, 2023). A characteristic of both business and broader society in Korea is the pseudo-familial ties based on mutual affection. For instance, one interviewee explained:

> There is a strong need for a sense of belonging. In general, teams are clearly defined, and people naturally seek out groups that they identify with, such as those formed by individuals who graduated from the same institution, for instance (CC-C32).

Traditionally, these group-related ties, known as *yongo* ties (Atay *et al.*, 2023; Horak, 2014; Horak and Klein, 2016; Lew, 2013), have been defined by family affiliation, regional origin, and educational institution (high school or university). However, their scope has expanded to include other networks where people can build close relationships, such as during military service, or with former workplace colleagues. These connections play an important role in managing teams, recruiting new managers, and acquiring projects and business intelligence through informal channels. Within these affective groups, seniority establishes status, influence, and power, as one interviewee explained:

> Seniority is important in each social relationship. Especially when you know someone from university or from your hometown or someone with whom you served in the military, it is important who is the elder. This is actually the first thing that is asked because it determines the social role. If a senior asks a junior for a favor, the junior will not say no, just to name one example of the morals that are involved in these relationships (GP-M12).

Furthermore, in Korea, the so-called *hoesik* culture is the common practice of after-work drinking or dining with colleagues (Atay *et al.*, 2023). Although participation is voluntary, peer

pressure and social sanctions make it unwise to decline. In other words, it indirectly reinforces loyalty to the group and affirms hierarchical relationships with juniors expected to serve their seniors and superiors. Seniors are expected to command, and juniors to obey orders without hesitation or negotiation. As one expatriate commented, *hoesik* rules are difficult to understand and often inconvenient for foreigners to follow.

> During *hoesik*, subordinates will serve their superiors foods and drinks. It is common for superiors to pay the bills, especially for the first round of food and drinks (CF-F30).

In brief, we see that seniority acts as an informal force influencing formal hierarchy at multiple levels, although its influence is more frequently questioned today than in the past (Tung *et al*., 2013). Cultural factors that support seniority-based hierarchy, such as the role seniors play within affective groups (*yongo*) and the strong desire to form such groups, are important yet underexplored in literature. *Hoesik* culture, common in business settings, is another cultural factor that supports and reinforces hierarchical structures. Further representative quotations related to informal hierarchy are presented in Table 3.

**Table 3**. *Informal Hierarchy*

| *Critical theme* | *Second-order construct* | *Representative quotation* |
|---|---|---|
| Informal hierarchy | Seniority | Seniority has a high influence on human interactions in Korea. I would say it is the most important factor (GC-O14). |
| | Women discrimination | Women have lower status than men in the society. In the organizations, women have seldom or few chances to speak, while men speak a lot during the meetings. Women at work must respect the norms (e.g., do not give an opinion, women should play the supporting role in the companies while men should lead the business) (FM-H08). |

**Formal and informal hierarchy interrelatedness.** The results of the intersection between formal and informal hierarchies highlight the strong influence of age-based informal hierarchies. Companies that focused exclusively on a formal hierarchy during organizational change often

experienced failure. Understanding the nuances of seniority-based culture, common in Confucian societies, is important in determining when and how to change formal hierarchies. An interviewee reported the following insight:

> Job titles and seniority are somewhat interrelated. Employees have certain expectations of what title they must have at a certain age. They do not really consider performance or achievements. The rationale for a title is usually justified by age. I have had many discussions in this regard (GP-T19).

The age-based informal hierarchy allows age progression and job title to correlate. This alignment reflects not only individual desires but also the expectations of family members and the social circle, including university friends who collectively exert pressure for age-based promotion, as they too are subject to the same ideological system rooted in traditional Confucian values. As a result, it is difficult to change. Due to this fact, some firms have decided not to touch the incumbent job title system, as one interviewee explained:

> Some firms abolished the Korean job title system, but we kept it. It is just too important in Korea. If it were to be abolished, staff would seek hierarchical orientation by seniority anyway. Though we are an international firm, 99% of our staff are Korean. So, we are an international firm with a Korean business culture. You just cannot and should not ignore the standards and norms set by the local culture (GP-N13).

Subsidiaries of MNCs aiming to flatten hierarchy to promote agility must understand the interplay between formal and informal hierarchies. Critically reflecting on the pros and cons of hierarchy is essential for balanced decision-making. Table 4 illustrates examples of this interplay and the related management challenges.

**Table 4**. *Formal-Informal Hierarchy Interrelatedness*

| *Critical theme* | *Second-order construct* | *Representative quotation* |
|---|---|---|
| Formal-informal hierarchy interrelatedness | Informal recruiting, imported hierarchy, uncontrollable hierarchy | Look at my team, they all worked together in another company before they joined us. In other words, when I recruited the first one among them, and then I recruited his prior manager, who has been recommended by the person I recruited, then this manager recruited his prior colleague, and another colleague…as a result, there are six of them working on the same team in our company, and they all worked for Company X beforehand. For |

| | |
|---|---|
| | me, there is great risk here. If these six team employees redo the same thing to our company, they left one after another, that is a big risk. Then, it is not clear to see what performance they achieve in terms of individuals. I do not know who does what and who is responsible for what. They always mention their collective performance but not individual ones. Therefore, you have difficulty in evaluating each one of them in terms of individual performance (FC-C03). |

**The pros and cons of hierarchy.** Understanding the forces and interweaving of formal and informal hierarchy, as well as the cultural foundations, raises a fundamental question of whether hierarchy in the context of MNCs' local operations can be considered a burden. Clearly, several Korean firms have risen to become global market leaders over the last four decades (e.g., Samsung and Hyundai), during a time when hierarchy was not questioned but rather seen as a strength for coordinating activities. Since some firms opted out of revising hierarchical structures and job titles, we were interested in the motivation behind this decision. Expatriates were invited to share their perceptions of hierarchy, as well as the pros and cons in the local context. Many recognized that while pronounced hierarchy was prevalent, it fundamentally restricts organizational agility and flexibility:

> If the structure is hierarchical, our reaction to change will be very inefficient in terms of decision-making, communication, and others. When the structure is lean, we are more flexible and agile in implementing strategies that fit our environment. However, local middle and upper managers are not directly involved in changing the environment, or they are not sensitive to the potential uncertainty in the market; they prefer staying in their comfort zone (FD-K09).

While arguments against hierarchy are more obvious, we sought to understand why not all managers embrace a flat organizational structure. Interestingly, many view hierarchy as identity-affirming, as it clearly indicates where one stands in society and business, and clarifies what behavioral norms are expected from each position. Hierarchy contributes to both organizational and social order, reducing ambiguity about who is in charge, who makes decisions, who executes decisions, and which arguments can be regarded as both positive and negative, depending on the

manager's preferences. For example, increased responsibility and accountability may be valued by some and seen as burdensome by others. These differences in perception were often named as a source of cross-cultural conflict. Arguments in favor and against hierarchy that were raised during the interviews are summarized in Table 5.

**Table 5**. *Arguments pro and contra hierarchy at the workplace*

| *Pro hierarchy* | *Contra hierarchy* |
|---|---|
| - Identity spending<br>- Clear understanding of position<br>- Clear understanding of expectations<br>- Clear understanding of behavioral expectations (behavioral norms)<br>- Clear line of command<br>- Incentive to achieve a higher hierarchical level<br>- Lean communication paths | - Jeopardizes flexibility<br>- Jeopardizes agility<br>- May suppress creativity<br>- May lead to less innovation<br>- May demotivate employees in a case where there are only a few higher job levels available |
| *Arguments that fit into both categories* | |
| - More responsibility for each individual<br>- More accountability for each individual | |

**The creation of agile organizational structures.** While most expatriates perceived pronounced hierarchies as a challenge, we were interested in how they coped with this situation and created more agility in organizational structures. We found several cases where companies reduced formal hierarchical levels, including the abolishment of related job titles, and adopted a dual way to use titles internally and externally (e.g., using English names for addressing each other in the company while using titles when working with external stakeholders and shareholders). This dual approach allows employees to feel equal within the company while being legitimate in respecting the cultural norms (e.g., the title system and seniority) in Korea. Thus, change was approached from both informal and formal perspectives. An expatriate explained this approach as follows:

> Be empathic; building close relationships with colleagues, to be personally integrated with colleagues, will help you better manage the Korean team. To succeed in building relationships

> with colleagues, it is not only about maintaining good professional relationships but also knowing colleagues personally in terms of their personal plans, family, and so on (FM-E05).

The formal aspect involves reducing the organizational hierarchy levels, as the same expatriate described: "Last year, our company reduced the hierarchical structure from six levels to 2.5. I cannot say that we have no hierarchy anymore, but at least the titles have been taken out of the system" (FM-E05).

Before abolishing job titles and flattening the organization, our interviewees suggested that an environment needs to be created that supports the transition to a flatter organization with reduced hierarchical job titles. Drawing on lessons learned from leading organizational change, one interviewee shared the necessary steps for creating an environment conducive to these changes:

> The first step is not to abolish job titles but to create an open office space or hot desking[4]. The second step is to identify talent and high potential from each hierarchy level and train them to express their opinions on how to improve daily operations in the company. Third, recruit staff by paying attention to their capabilities, such as critical thinking and taking initiative. Fourth, adjust HR practices and policies to suit a flat organizational structure (CF-F26).

This statement offers valuable insights but does not fully disclose the potential conflicts. The reduction in hierarchy levels resulted in some managers losing their managerial status, although the firm allowed them to maintain their salary levels. While this acted as an incentive for many to stay, others chose to leave. Interestingly, even though some managers no longer held official managerial roles, their former subordinates still felt obligated to follow their authority due to the informal hierarchy rooted in seniority. Notably, companies that reverted to the previous system after attempting to abolish hierarchies reported a similar scenario.

[4] The term "hot desking" refers to an office organization philosophy in which employees do not have permanent desks. Instead, office space is used by multiple employees at different times.

Reducing formal hierarchy often led to the emergence of a hidden, informal hierarchy that was harder to manage through formal means. This created a hybrid structure where formal hierarchy was flattened, but informal hierarchy re-emerged in parallel. In other words, hierarchy was formally reduced but informally reinvented itself, leading to a novel structure running parallel to the formal one. At the time of data collection, it was too early to tell the long-term success of this change in title system, and whether subsidiary leadership was satisfied with the progress, viewing the transformation and hybrid hierarchy as a positive outcome.

## Discussion

Our findings make three key contributions. First, the study broadens prior research on hierarchy by identifying its functional and dysfunctional aspects. Second, we demonstrate that organizational hierarchy is best understood as part of a hybrid institution, where formal and informal aspects of hierarchy interact simultaneously. This hybridization is a response to the conflicting dual isomorphic pressures faced by subsidiaries of MNCs, allowing them to leverage the tension between headquarters and local operations. Third, by applying an institutional lens, we highlight the persistent role of informal hierarchy, providing MNC leaders with a better understanding of how to adapt to Korean workplace cultures and norms. We discuss the theoretical and managerial implications below, based on our findings.

### *Theoretical implications*

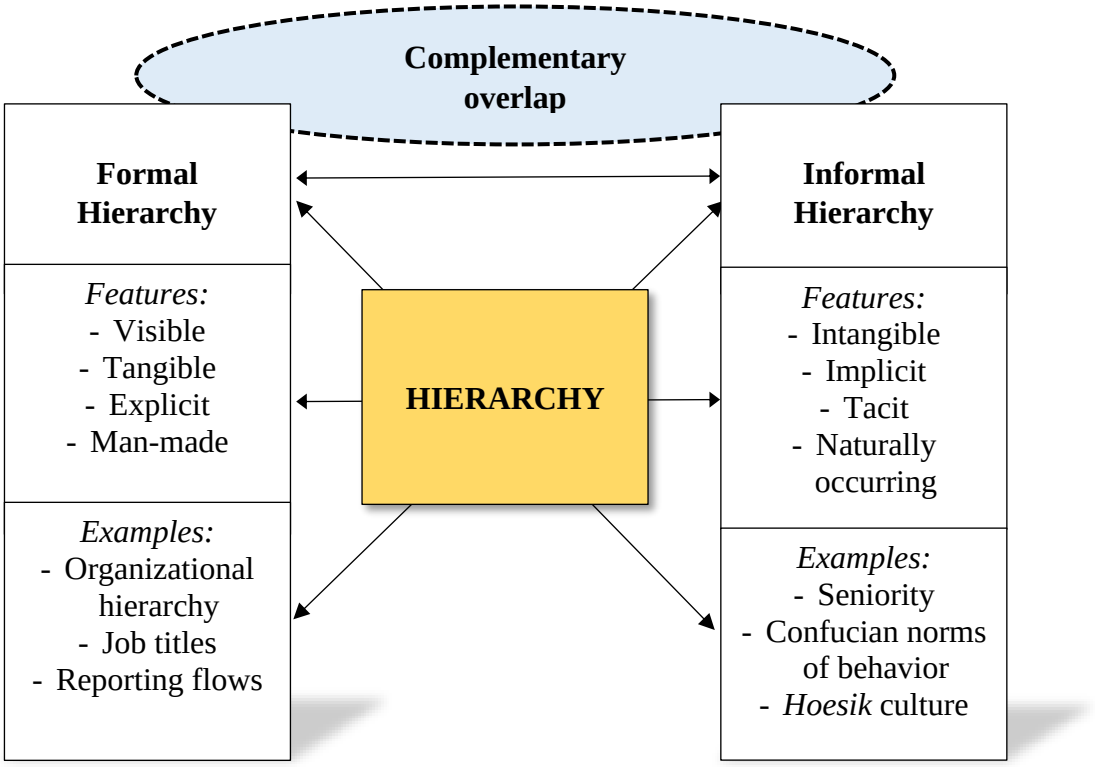
#### *Hierarchy: Neither formal nor informal but a hybrid institution in varying degrees*

We utilized informal institutional theory along with isomorphism theory, explaining that understanding the nature of informal institutions in a foreign context, such as hierarchy in subsidiaries of MNCs, can advance theoretical knowledge and inspire future research.

One major insight from our study is the characterization of hierarchy as a hybrid institution, combining formal and informal aspects. Formal hierarchy, tangible and explicitly designed, is reflected in job titles and organizational charts. In contrast, informal hierarchy, intangible and tacit, often arises naturally, as seen in the seniority rule rooted in Confucian traditions. Within these traditions, seniority embodies a tangible manifestation of informal hierarchy. This tangibility is evident in the way seniority is accepted as a reliable basis for promotion and career advancement. Confucian values and norms make informal hierarchy both authoritarian and benevolent, emphasizing participation and group decision-making, and complementing formal hierarchy (Horak and Yang, 2019). The dynamics between formal and informal hierarchy in organizational settings can lead to different outcomes.

Informal hierarchy can reinforce, destabilize, or even deteriorate formal hierarchy. Based on our findings, informal institutions appear to stabilize formal hierarchies that are similar to the ones manifested by them, and destabilize those that contradict them. In traditional steep hierarchies in Korean organizations, informal institutions reinforce formal hierarchies due to alignment. However, when MNC headquarters introduced a flat hierarchy, it significantly clashed with the socially constructed hierarchy, ultimately leading to failure due to diverging norms and destabilization effects. Thus, the overlap between informal and formal hierarchy (see Figure 1) must be recognized. The tensions arising from this complementary overlap, as described by Yang and Horak (2019), need alignment to strengthen formal hierarchy in a way that supports an agile organizational structure. Expatriates can play a significant role in this context when acting on behalf of headquarters, reducing conflicting interactions between formal and informal institutions within organizational hierarchies.

**Figure 1**. *Hierarchy, a hybrid institution—Formal-informal hierarchy and complementary overlap.*




These findings raise questions about whether the commonly described "bipolar" (either/or) distinctions between formal and informal institutions can sufficiently explain the observed phenomena. Our findings support the continuum perspective of these institutions. Formal hierarchy reflects an organization's governance structure, represented by functional, divisional, or matrix organization charts. In contrast, informal hierarchy is embedded in social relationships, shaped by differences in socialization, habitus, and social class. Since hierarchy comprises both formal and informal aspects that are interrelated and can overlap to varying degrees on this continuum, it may be more accurately classified as a *hybrid institution*.

Finally, although categorizing institutions is helpful for analytical purposes, our findings confirm that the bipolar (either/or) framework seems too limited and emphasizes the continuum

perspective, ranging from formal to informal. Importantly, hybridity is not necessarily located in the space between formal and informal institutions. In practice, hybridity can occur at any point along this continuum, depending on the interaction level between the two. Hybridity can take forms such as selective emulation and selective innovation (Ansari *et al.*, 2014). For instance, our findings show that some companies selectively adopt parts of the headquarters' agile organizational structure while continuing to respect the informal hierarchy in Korea. Other companies in our sample had to develop and innovate solutions to introduce a flat structure, or they risked failure.

*Informal hierarchy determines the direction of isomorphic pressures*

Our findings show that both global isomorphism and local isomorphism exist. We presume that the host country's informal hierarchy influences the level of isomorphism in MNC subsidiaries, often conflicting with the headquarters' isomorphism. In our case, an informal hierarchy (and the related second-order themes) seemed to hinder a full convergence of the ideals of a flat and agile organization that were more prevalent in the European headquarters of the firms interviewed. Isomorphic pressures might have led to a full convergence of formal hierarchies if informal hierarchies had not existed or had been very weak. However, this scenario was not observed in our field research. Instead, we observed divergence, where the introduction of a flatter organization failed, leading subsidiaries to reintroduce former hierarchical job titles. We also observed scenarios at various stages between convergence and divergence, such as states of hybridization.

In the literature, hybridization is seen as a negotiation between local and foreign approaches to suit the local environment (Budhwar and Debrah, 2008; Dowling and Donnelly, 2013; Horak and Yang, 2019). However, hybridization is a risky phase often accompanied by conflict and insecurity, which can lead to either functional or dysfunctional outcomes. Dysfunctional hybridization results in inefficient (i.e., costly) and ineffective (i.e., not meeting

targets) management systems (Horak and Yang, 2017). Our results address gaps in understanding the resistance factors to functional hybridization (Gamble, 2003, 2006; Kuehlmann, 2012). As Aguilera and Grøgaard (2019) point out, the conceptual nature of informal institutions is largely unexplored. We found that the strength of informal hierarchy, shaped by local norms, values, and behavioral ethics, determines the stability of formal hierarchy. Since informal hierarchy is a crucial variable in stabilizing formal hierarchy, it also determines whether organizational agility will be characterized by functional or dysfunctional hybridization. Aiming to make hybridization functional and well embedded in the host environment is a process we describe as "managing hybridization".

Our findings suggest that managing the phases of hybridization towards a functional system first requires knowledge of the processes and tools, the managerial skills for implementing formal hierarchical changes within an MNC subsidiary, and, crucially, the abilities to manage the transformation of an informal hierarchy. This transformation complements a formal hierarchy and determines the direction of isomorphic pressures, i.e., towards either functional or dysfunctional hybridization.

*Hybridization, organizational and personal agility, and HRM*

Developing talent as a key human resource to meet company-specific agility needs has been previously discussed, though primarily with a focus on Western contexts. Harsch and Festing (2020) have introduced the concept of dynamic talent management (TM) capabilities, proposing that companies need different dynamic TM capabilities for different situations. These dynamic capabilities, which consist of patterns of talent attraction, selection, development and retention, shape key human resources that contribute to organizational agility. However, while the authors looked at external market factors and internal agility-differentiating factors, such as structures or

culture, in their framework, they neglected the institutional environment, particularly informal institutions, that may limit the effectiveness of dynamic TM capabilities in creating organizational agility.

Our study has complemented prior studies by explaining the role of informal institutions in the host country. We highlight that organizational agility, in terms of speed, flexibility and innovation, may not be achieved if flat hierarchies are not accepted within the local environment. Instead, hybridization may occur as a result of the dynamic interplay between convergence and divergence (Ansari *et al.*, 2014).

Additionally, this study addresses the call for further investigation into dynamic TM capabilities in other contexts (Whetten, 2009). Focusing on East Asia, it explains why informal institutions and their respective behaviors are difficult to change and require different approaches. Similar contextualization can be derived for managing employee agility. For example, the work by Salmen and Festing (2022)—which identifies challenging and hindering job demands in dynamic environments as important influencing factors affecting employee agility, and proposes a set of flexibility-promoting HR practices to moderate the relationship between job demands and employee agility—would also benefit from including additional insights into how informal institutions limit agility if applied in the context of Korea.

*Practical implications*

Prior studies have pointed out that organizations tend to adopt, adapt, or imitate legitimized formal structures and informal rules that grant them legitimacy within specific institutional contexts (DiMaggio and Powell, 1983). However, Meyer and Rowan (1977) highlight the risk of rationalized myths, and indicate that institutional processes involve both stability and a change in organizational structure. This is particularly true for MNCs, which must balance the different

perceptions of legitimacy between headquarters and subsidiaries. What expatriates view as rational may not align with the perspectives of employees of foreign subsidiaries. In our study, the investigated MNCs promote agility as a coping strategy for the VUCA environment. Therefore, expatriates adopt "habitualized action" (Myer and Rowan, 1977) to build agility within the organizational structure of subsidiaries, which is an institutional process to achieve headquarters' perceived legitimacy. In practice, the investigated companies achieve different results when implementing agile organizational structures within their Korean subsidiaries. This study proposes three managerial implications.

First, to encourage employees in the Korean subsidiaries to embrace an agile organizational structure, it is necessary to review the recruitment policies and practices. New hires should be open-minded, culturally sensitive, and willing to practice agility. For instance, some companies in our sample that recruited candidates who studied in France before joining their Korean subsidiaries, found that the candidates are better able to cope with the cultural differences between France and Korea. Thus, from a conceptual point of view, important selection criteria for individuals, who can contribute to greater organizational agility, include intercultural competence (Dowling *et al.* 2023) and employee agility (Salmen and Festing, 2022). Additionally, companies should implement training and incentive programs that educate employees on agile behaviors and reward agile practices. Here, incorporating the concept of learning agility (deRue, 2012) could be helpful in developing training strategies, as suggested by Salmen and Festing (2022). In addition, intercultural training that addresses topics like power distance and hierarchy could be beneficial (Dowling *et al.*, 2023).

The second implication is that the top management teams of MNCs should integrate agility into corporate culture and actively support agile practices. Insights into dynamic talent

management capabilities, which influence organizational capabilities, may be useful (Harsch and Festing, 2020). Leaders should act as role models in promoting collaboration, embracing openness to differences, and providing timely feedback. Since subsidiaries face dual isomorphic pressures, leaders must anticipate resistance to agile organizational structures in different institutional contexts and understand how formal and informal hierarchies interact. Conducting an agile transformation in general, and building an agile organizational structure in particular, requires differentiation strategies. Leaders of MNCs should focus on the "3C actions": *cultivating* an agile corporate culture, *coordinating* practices and policies that facilitate both global and local collaboration, and *co-developing* collective intelligence on agile organizational structures across the organization.

The third implication is that hybridization can occur at any point along the continuum between formal and informal hierarchy. MNCs should be open to various levels of progress in building agile organizational structures within their subsidiaries. As organizations increasingly recognize the value of these structures, MNC headquarters may aim to build these across borders. However, subsidiary-level employees may not perceive these structures as legitimate due to the impact of informal hierarchies. It is therefore necessary to ensure "commitment and conviction among subsidiary managers and employees" (Ansari *et al.*, 2014, p. 1335) through ongoing and open dialogue between expatriates and subsidiary employees, as well as between the top management team at headquarters and the subsidiary managers. Intercultural training focused on local cultural elements, such as *yongo* (social networks), *hakyon* (university-based networks), *jul* (extreme loyalty) or *seonbae* (traditional Korean style mentorship), and their implications for hierarchy and leadership in Korea, would also be beneficial (for intercultural training and informal networks, see Dowling *et al.*, 2023).

## Research limitations and future research avenues

While we have generated a rich dataset from expatriates working in subsidiaries of European MNCs in Korea, we believe that it would be beneficial to include Korean employees' perspectives. This, however, is challenging, as Korean work culture often idealizes adherence to hierarchical structures, making employees uncomfortable discussing or criticizing their expatriate supervisors or companies. The second limitation is the single-country focus on Korea. While this research provides a foundation for further studies to reduce the potential bias, future research can investigate and compare hierarchy management in MNC subsidiaries across multiple countries. Such comparisons could offer new perspectives on diverse forms of hybridization, and open avenues for future research into the long-term effects and antecedents of informal hierarchy across different contexts.

We propose the following research questions for future study: How does informal hierarchy affect innovativeness? How can conflict be mitigated during organizational change aimed at reducing hierarchy? How can intergenerational conflict between a young workforce and an aging workforce drawing on traditional values be reduced? A research agenda focusing on the effects of informal institutions on organizational and managerial aspects in MNCs could become a new pillar of cross-cultural management research. Positioned at the intersection of international business and organizational studies, this agenda would apply an institutional lens to cross-cultural issues.

## Conclusion

This study extends prior research by conceptualizing hierarchy and identifying its various forms within an Asian management context. We conclude that organizational hierarchy is best classified as a hybrid institution, where formal and informal aspects of hierarchy overlap in a complementary manner. While formal aspects typically define organizational hierarchy, the institutional lens we

applied highlights the critical role of informal hierarchy, especially in an Asian context. As demonstrated, informal hierarchy persists, even when job titles are removed. Since informal hierarchy is crucial for stabilizing formal hierarchy, it also plays a pivotal role in determining whether organizational agility leads to functional or dysfunctional hybridization. These insights open avenues for future research into the long-term effects and antecedents of informal hierarchy in different countries where MNCs operate, as well as broader explorations of informal management.

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**Appendix A**: Examples

A) Major themes and codes (selected examples) [*]

| Predefined themes | First-order Themes (shortened) | Second-order themes | Aggregate theme descriptors |
|---|---|---|---|
| Formal hierarchy | • Age-based title<br>• People address each other by their job titles<br>• Job position guides how individuals communicate with each other<br>• Top-down orders<br>• No critical debate within hierarchical relation<br>• Headquarter culture versus subsidiary culture<br>• English names<br>• Formal interactions<br>• Procedures and rules (reporting only to the N+1 manager)<br>• Strict adherence to the chain of command<br>• Speaking up<br>• Critical thinking<br>• Rare or no employee voice<br>• Employee compliance<br>• Avoidance of open disagreement or questioning of authority<br>• Serving the superior<br>• Clear command structure<br>• Self-initiative disliked<br>• 'Follow the leader' at all costs<br>• Regular promotion based on time spent on the job<br>• Different treatment based on hierarchy<br>• Confucian hierarchy<br>• Business card exchange<br>• Door-opening for superiors<br>• Seating positions (with superiors in the center)<br>• Role setting (for men and women in the organizations)<br>• Formal language (used when addressing superiors)<br>• Organizational chart | • Job title<br>• Military inspired hierarchy and behavior<br>• Corporate etiquette<br>• Reporting structure/ anti-agility<br>• Rank/ self-initiative<br>• Behavioral norms/ etiquette<br>• Respect for hierarchy and rank<br>• Power dynamics<br>• Role of subordinates<br>• Formal hierarchical structures<br>• Social distance<br>• Cultural respect for authority<br>• Overlap in personal and professional relationships<br>• Power distance<br>• Conflict avoidance<br>• Hierarchical decision-making<br>• Obligation of employee obedience<br>• Deference to authority<br>• Suppression of employee voice<br>• Hierarchical communication flow | • Preference for clear corporate hierarchy<br>• Command and control culture<br>• Hierarchy-driven control mechanisms<br>• Constrained organizational agility<br>• Formal authority with informal social codes<br>• Title system as a social control mechanism<br>• Hierarchical communication<br>• Hierarchy-driven conformity<br>• Cultural communication norms<br>• Employee silence |

[*] Note: Further information on coding is available from the authors.

B) Exemplary steps in data analysis

| First order | Second order | Aggregate Dimensions |
|---|---|---|
| As the Chief Information Officer, when I walk into the meeting room with my subordinates, the Korean subordinates always open the door for me and let me in first. Then, I should sit at the center of the meeting room, with my subordinates seated around me. [FC-C03] | Behavioral manifestation → Hierarchy respect | Hierarchy nature<br>- Formal<br>- Informal<br>- Formal-informal hierarchy interrelatedness<br>- Culturally embedded |
| In Korea, we should address others based on their job positions. [HF-F29] | Communicational manifestation → Respect for hierarchy, formality and social ranks | |
| Job titles indicate seniority, hierarchy, and privileges that seniors just have over juniors. [#GP-L11] | Formal-informal interaction → Respect for age and social norms | |
| If you have a good relationship with your manager, and if your manager has the impression that you're doing a good job, in general, you'll receive a favorable performance appraisal. It has more to do with the impression you leave on your manager than with very objective assessments of what you've managed to do. [FM-E05] | Respect for hierarchy → good relationship, reciprocity, impressions over objectivity | Pros and cons of hierarchical dependency<br>- clear structure and role (+)<br>- stability and predictability (+)<br>- Inequality and power imbalance (-)<br>- employees' limited autonomy and upward feedback (-)<br>- favoritism and bias (-) |
| They (Korean employees) respect whatever is given to them, and they just need to implement top managers' ideas. [CA-A25] | Top-down authority and obedience → employees' lack of decision-making autonomy, employees' role is implementing not contributing or questioning decisions | |
| As a manager, you need to take more time to explain and reassure your Korean team about tasks that may seem complex, such as integrating agility into their daily work. [CF-F30] | Take more time to explain and reassure Korean team → managers should show cultural sensitivity, guideline, emotional and professional reassurance, patience | Solutions to build agile organizational structure<br>- patience and managerial support<br>- workplace harmony<br>- uncertainty reduction<br>- managers with cultural intelligence |

Source: Authors' own work