

Informal Networks in International Business

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Informal Networks in International Business

BY

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Preface: Informal Networks Worldwide

Networking is widely regarded as an activity managers should do, simply speaking, to get things done and to meet corporate goals, to get ahead professionally or stay informed about opportunities. Networking is not solely a management technique. It is about meeting people and developing relationships as for many activities we are better off when we collaborate, receive and give help, and offer goodwill and support to others. This in turn is important for our social well-being and personal growth. As some people engage more in networking than others, in principle we all network for different reasons. While we all have a pretty good idea what networking is and how it works – like it or not – how networking works abroad, in countries or regions unfamiliar to us, is not so clear to most of us. Meeting people and developing relationships, i.e., networking, is usually based on shared values and behavioral norms. Commitment to relationships plays a role, as do the ideals of altruism and norms of reciprocity, to name just a few features. As values, norms, and ideals relevant to relationship building differ around the globe, the ways in which people network can be assumed to differ too. This is where this edited volume seeks to contribute. Managers working abroad but being socialized in a different environment, i.e., expatriates, as well as business travelers, traveling executives, country representatives at headquarters and others, are among those who need to integrate and connect to informal networks abroad for several reasons. The rise of China, and accordingly the influx of businesspeople from all over the world, has made the Chinese way of networking, known as *guanxi*, the most prominent example of informal networking to date. While every expatriate manager knows the central importance of developing and maintaining *guanxi* in China, the characteristics and structures of other informal networks, for instance, *yongo* (Korea), *wasta* (Arab world), *jeitinho* (Brazil), *blat/svyazi* (Russia), *sifarish* (Pakistan), *jaan-pehchaan* (India), and many others, remain largely unknown, underestimated, or misunderstood by many expatriate managers. Most of the named network constructs are featured in this edited volume. Informal networks are often reflections of societal structures and deeply engrained into the respective cultural environment. Hence, understanding them and developing informal network competence is pivotal for successfully managing locally.

Informal networks can be an influential factor in day-to-day operations in leadership and human resources management (recruitment, selection, promotion), in sales, project acquisition and business development, or in any functions relating to relationship management at large. Understanding informal networks helps in

better managing risks and opportunities in business, including those difficult to formally enforce. Before we can think of how to network effectively abroad, we need to understand what networking is about, what ideals prevail, and what structures possibly preexist that make up networks. While informal networks come in different shapes, in this book we predominantly discuss informal network constructs, outlining the characteristics and their relevance to international business activities from theoretical and practical perspectives. Given the intertwinement of theories, concepts, and constructs surrounding informal networks, it is difficult to clearly separate them from each other. While some contributions in this book focus more on general aspects of informal networks, others inform about their distinct nature respectively. Following this idea, the book is divided into three parts. Each part is diverse, reflecting the current nature of the field. While contributions in the first part present emerging theories, concepts, and observations about informal networks, works in the second part contribute to construct knowledge. A further, final part features contributions pointing out potential future areas of research on informal networks.

The first part sheds light on the very general question of what informal networks actually are. To what extent are they different and/or similar to conventional social networks? What theories are utilized and suitable for framing informal network research in international business studies? In what form do informal networks appear? While it is difficult, again, to separate one from another, it is obvious that the nature of networking is shaped by the respective social organization of a society, i.e., its values, expectations, and behavioral norms in interpersonal interactions. Since those differ around the world, the way people network differs accordingly. That's the reason why the first paper in this section, among others, suggests regarding informal network research as a distinct area in the field of social network research with some overlap with the latter. Informal networks may be seen as informal institutions and sources of social capital at the same time. However, it is important to understand the distinct character of informal networks to guide further research in this direction to accumulate knowledge on features like their cultural embeddedness, persistence, ethicality, accessibility to outsiders (e.g., business expatriates), and integration of outgroups, minorities, and gender equality, to name just a few. A high degree of loyalty between network members translates into rather strong ties, and in fact, informal network ties are often (but not always) synonymous with quite strong ties. This, however, is currently a hypothesis rather than a fact, and Peng and Peng in this volume make a good case for suggesting that during institutional transitions, initially strong ties develop into weak ties in later phases of transitions. While tie strength is debated in sociology as well as in international business studies, a further frame for accessing informal networks is provided by the "liability of foreignness" concept, which is popular in international business studies in particular. While being foreign to a business environment is often seen as a disadvantage for a multinational firm, for instance making it difficult to integrate and access local informal networks, Lee and Paik suggest that their foreign status can be turned into an "asset of foreignness" as they are in a better position to balance network ambivalence, i.e., its bright and dark sides. Lee and Paik's work

sends an important message to international businesses that has probably not yet been taken seriously enough by multinational firms: Informal networks can (and should) be proactively managed by firms to curtail negative effects and develop a relational competitive advantage. Further, while in the past, international business research has explored, in particular, the contribution of the Chinese diaspora to economic development and China's further integration into the world economy, increasing levels of global migration have fertilized interest in diaspora studies and the positive economic effect it brings. Gevorkyan connects to this debate and provides deep insights into the key elements defining the operational capacity of diaspora networks, i.e., identity, trust, and engagement infrastructure, which run parallel to dimensions of social capital. Finally, the first part of the book concludes with an observation away from individual behavior toward network features within an industry. With the example of the insurance industry, where firms maintain both transactional and effectual informal networks with clients and competitors, Scordis points out the function of these networks in reducing uncertainty and supporting entrepreneurial innovation.

The second part of the book utilizes the environmental context of informal networking to bring the development of construct knowledge into the limelight. It features works on the most prominent informal networks in the literature, such as *guanxi* (China), *yongo* (Korea), *wasta* (Arab world), and *jeitinho* (Brazil). It sheds light on the informal networks of Russian multinationals and their political connections, elaborates on how the old boys' networks operate in the United States, and presents the challenges of expatriates in developing informal ties in Denmark. First, the contribution by Bian relates to the important question of whether informal networks in China, i.e., *guanxi*, will persist or disappear over time. Bian draws on authoritative empirical evidence accumulated over decades that speaks in favor of the persistence of *guanxi*, which is especially evident when it comes to job mobility. Based on data gathered between 1978 and 2014, it can be concluded that the use of *guanxi* ties for job acquisition has substantially increased rather than decreased. Among others, we learn from Bian's work that *guanxi* dynamics are influenced by external forces, such as the level of institutional uncertainty and market competition. Though it is up to future research to explore whether we can generalize insights derived from *guanxi* research to other informal networks, the parallels to *yongo* ties and networks in Korea are intriguing. In the second paper in this section, Horak and Park assert, in line with Bian's work on *guanxi*, that *yongo* has not disappeared in Korea. It persists and can be seen as a characteristic feature in business, politics, and the society. The fact that Korea is not an emerging economy with transitional institutions provides a powerful argument that informal networks generally persist and do not disappear with further economic advancement and institutional effectiveness. Horak and Park catch up with the dynamic aspect of informal networks as suggested by Bian and report on the adjustment capabilities of *yongo* as it evolves and adjusts to changes in the sociocultural environment. Notably, while for Koreans *yongo* affiliation is immutable and irreversible, it is by nature closed and exclusive, and international business expatriates can hardly access them or acquire *yongo*. This feature is of central importance to the field of international human resource

management, which is concerned with expatriate adjustment, performance, and social integration. Going further, Alhussan and AL-Husan point out the pervasiveness of *wasta* influencing economic, social, and political outcomes, which is regarded as the backbone of the social organization of Arab societies. Alhussan and AL-Husan point out the complexity of *wasta* and describe the construct by its core values and according to different dimensions. While trust is a central aspect of *wasta* ties, it differs according to the relational distance within a family and acquaintance context. As the Arab world is an important market for international businesses, research on how the *wasta* context influences decision-making and actions taken by multinational enterprises will help to improve managerial effectiveness and mutual understanding. Further, the work by Panibratov, Michailova, and Latukha analyzes the informal ties between Russian multinational enterprises and the government, assessing the role of political networks in the internationalization process. While this perspective brings structural features into focus, it contributes to a better understanding of the internationalization process of emerging market enterprises and the dark and bright side of the political connectedness of firms. Going forward, *jeitinho* is an informal practice often requiring network access to get things done in Brazil. Torres and Nascimento provide a rich sociocultural exploration of Brazilian *jeitinho* in a historical context. *Jeitinho*, as is typical for informal ties and networks, has dark and bright sides. While it is prone to corrupt activities, it contributes to managerial efficiency and effectiveness and hence keeps operational costs low. Developing personal relationships and understanding how good and bad *jeitinho* work, as well as understanding the consequences of both, is essential for foreign businesses in Brazil. As mentioned before in the case of Korea, informal ties and networks have often been related to emerging economies. Nevertheless, exclusiveness and challenges in developing informal ties or accessing informal networks have been explored in developed economies too. Applying the social network lens, van Bakel reports on business expatriates' challenges developing social ties in Denmark. Often, expatriates stay among themselves and live in an "expatriate bubble," which does not contribute much to cultural learning and may have a negative effect on well-being and satisfaction. Drawing on expatriate interviews, it becomes evident that, among other things, the homogeneity of the Danish society, the valuation of equality, and often simply a lack of interest in connecting to foreigners while already having an established circle of friends and acquaintances, often from school days, are factors not helping expatriates to connect to locals. While environmental receptiveness differs strongly among countries – a counterexample to Denmark would be the United States – van Bakel's research has implications superseding organizational questions. Given the increasing shortage of labor in many countries these days, governments are well advised to think about how to create environments that are receptive and friendly toward expatriates of all types to make them stay and feel accepted and integrated. Going further, the old boys' network in the United States is not the typical social network but rather a distinct type of network that deserves special attention. In their contribution, Liu and McDonald make it clear that the old boys' network is not an open and accessible network but an exclusive elite network of usually white

males. Old boys' networks have features we find in many other informal networks: The degree of social closure is high, as is the level of homophily. As resources are somewhat distributed within the network, members benefit, for instance, in hiring decisions or when it comes to performance evaluation and promotion, among other things. Finally, the third part of the volume features two perspective papers pointing toward selected future areas of research. The first one, by Horak, McCarthy, and Puffer, reflects on the fact that networking behavior differs across countries, while at the same time networking is surrounded by ambiguity as it has both a dark and a bright side. This makes informal networking in international business relevant to the field of business ethics as deviation in underlying norms, values, and ideals of networking can lead to ethical dilemmas that international managers need to be aware of. This becomes evident in particular when it comes to favor exchange, which represents one of many mechanisms in the operation of informal networks. International managers need to develop competencies to navigate networking ideals in order to avoid ethical dilemmas abroad. In closing, using the example of *wasta*, Weir, and Ali elaborate on the progression of research in this field since the 1990s. While theorizing has become more inclusive by granting more space to informal phenomena in economic thinking, in a further step, *wasta* research needs to move on from often rather descriptive approaches to providing evidence through hypothesis testing in a more advanced methodological framework.

Overall, the contributions in this edited volume access informal ties and networks from a variety of perspectives. The diversity of views and emphasis reflects the state and nature of research in this field. While informal network research has a research history, it is rather eclectic, built around single network constructs. Comparative approaches, though some exist, between two or more network forms have so far been a less pursued approach, not to speak of generalizations working toward theory development. Nevertheless, as research on informal networks evolves, some branches of research are more mature than others. While at this point work exploring the persistence hypothesis (will informal networks persist or recede?) is likely the most advanced research stream, informal networks can also be characterized by their ambiguity (dark and bright side). While money-based corruption representing the dark side has been comprehensively explored, many other facets at both ends of the continuum have not. Further, the question of network accessibility is an exciting research stream. In this regard, the need to acquire global networking skills becomes central, which is relevant in particular for managing international business. As we have learned from the contributions in this book, some networks (but not all) are quite exclusive and/or familistic or clan culture driven, hence they are more difficult for foreigners – i.e., international managers – to access, which has important implications for managing business abroad, leading teams or for subsidiary integration in many respects, such as supply networks or ties between managers of a foreign firm and representatives of the government. The role of factors that define network cohesion, i.e., the level and nature of loyalty among network members, is another important field of inquiry indicating the extent to which network ties are given priority over

common fairness and ethical standards, or even formal rules, such as, for instance, following compliance rules or a corporate code of conduct.

Besides the inspiration the contributions provide for theoretical advancements, they have useful implications that will assist international managers in becoming more sensitive and therewith more effective in their work abroad. Managing or even leading informal networks requires a deep understanding of the respective sociocultural environment in order to “see” informal ties and networks operate, as they often do so in the shadows. It requires an understanding about the factors contributing to network formation and cohesion. Last but not least, a thorough understanding of consequences to engaging in networking needs to be developed as behavioral norms and expectations need to be understood when managing in an unknown environment. Developing sensibility and networking competence for respective countries and regions helps a multinational firm develop a relational competitive advantage.

Sven Horak, New York, January 2022