

**EXPLAINING THE PERSISTENCE OF INFORMAL INSTITUTIONS:
THE ROLE OF INFORMAL NETWORKS**

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Abstract

The paper unpacks the “black box” of informal institutions and theorize about the role of informal networks in channeling continuity and change in informal institutions. Specifically, we argue that when informal institutions are enacted by informal networks that are “relatively affective” and “relatively closed,” their persistence is higher than the persistence of informal institutions that are enacted by “relatively open” and “relatively instrumental” networks.

Keywords: Informal institution, informal network, informality, network typology, institutional dynamic.

INTRODUCTION

Why do informal institutions persist? In the early 1990s, North asked: “What is it about informal constraints that gives them such a pervasive influence upon the long-run character of economics?” (1991: 111). A decade later, Williamson (2000: 610) referred to informal institutions as “an important but underdeveloped part of the story” in institutional economics and pointed to the need to understand why they are so slow to change. He argued that the “identification and explication of the mechanisms through which informal institutions ... are maintained would especially help to understand the slow change in Level 1 [informal] institutions” (Williamson, 2000: 597). Despite the emergence of the institution-based view of international business strategy (Peng et al., 2008), ten years later strategy scholars were still suggesting that the “informal aspects of the institutional framework are often not explicitly considered” (Sauerwald & Peng, 2013: 524). More recently, political scientists emphasized the need for studies that explore why informal institutions do or do not change (Aliyev, 2017).

The dominant view on informal institutions as “compensatory” structures answers this question by suggesting that “in situations where formal constraints are unclear or fail, informal constraints will play a larger role in reducing uncertainty, providing guidance and conferring legitimacy and rewards to managers and firms” (Peng et al., 2009: 68). In other words, when formal institutions become more effective, the power of informal institutions over the behaviors of individuals and firms weakens. This view has been particularly pronounced in studies of transition economies (Gu et al., 2008; Hutchings & Weir, 2006; Wilson & Brennan, 2010). Today, three decades after the fall of the Berlin Wall, most transition economies have advanced in the development of their formal institutions. However, informal institutions remain present and powerful. Furthermore, in many established democracies with strong and effective formal institutions, informal institutions, such as *le*

piston in France and *janteloven* in Denmark, are equally strong. Therefore, for all economies and institutional environments, the key question remains: *What explains the persistence of informal institutions in the face of formal institutions?*

In order to explain the persistence of informal institutions, we must unpack their relationship with formal institutions and understand the mechanisms underlying their interplay. We identify informal networks as such mechanisms. We argue that the persistence of informal institutions depends on the functionalities of the informal networks upon which they rest. We identify key features of informal networks relevant for channeling continuity and change in informal institutions, ranging from “relatively open” to “relatively closed” and from “relatively affective” to “relatively instrumental.” We argue that when informal institutions are enacted by informal networks that are “relatively affective” and “relatively closed,” they are likely to be more persistent. On the other hand, “relatively open” and “relatively instrumental” networks channel and facilitate change in informal institutions. As such, informal institutions resting on these informal networks are less persistent.

The suggested framework improves the conceptual clarity regarding the workings of informal institutions. Without such clarity, empirical work, including the development of measurements of informal institutions, can only make limited general contributions, and may provide inconsistent or even conflicting evidence. Moreover, given the complexity of informal institutions, we believe that unpacking the “black box” that surrounds them will add to extant knowledge and may even uncover new directions for future research on the interplay between formal and informal institutions. Furthermore, an understanding of this complexity and the roles of informal networks in channeling continuity and change in informal institutions is crucial for firms operating in foreign environments and consciously or unconsciously dealing with informal institutions on daily basis.

The paper is structured in the following way. We begin with definitions. More specifically, we identify the two most established approaches to understanding the interplay between informal and formal institutions in the extant literature across disciplines. Borrowing from evolutionary biology, we associate these approaches with “parasitic symbiosis” and “commensalistic symbiosis”. Both of these approaches offer own answer to the key question of why informal institutions persist. To complement them, we point to a third alternative in which formal and informal institutions coexist in symbiotic relationships—a mutualistic symbiosis. To answer our key question of why informal institutions persist, we stress the central role of informal networks, which act as pipes and prisms (Podolny, 2001; Owen-Smith & Powell, 2008). Due to their dual functionality, informal networks channel and adapt to the changes brought into the institutional field by formal institutions. At the same time, they guard and enact the continuity of informal institutions. We conclude the paper by explaining the variance in the persistence of informal institutions by specifying the features of the informal networks upon which informal institutions rest.

INFORMAL INSTITUTIONS: DEFINITIONS AND CONVENTIONS

According to the classical definition, informal institutions are “a set of rules, compliance procedures and moral and ethical behavioral norms designed to constrain the behavior of individuals in the interests of maximizing the wealth or utility of the principals” (North, 1990: 201). In particular, North (1990) focuses on the role that institutions play in reducing uncertainty in human interactions by establishing formal constraints (i.e., formal rules and specifications, statutes and common laws, and constitutions). However, due to “incompleteness of the information” (North, 1990: 37) and the need to “coordinate human interactions,” informal institutions are “(1) extensions, elaborations and modifications of formal rules, (2) socially sanctioned norms of behavior, [and] (3) internally enforced

standards of conduct” (North, 1990: 40; see also Scott, 2004). Informal institutions rest on informal networks. While informal institutions provide norms, conventions, and social rules, informal networks offer culturally embedded channels through which informal “rules of the game” are transmitted and transformed (Owen-Smith & Powell, 2008; Padgett & Powell, 2012). As “conventions, norms of behavior, and self-imposed codes of conduct,” informal institutions are central for understanding institutional change (North, 1995: 23).

Overall, institutions have been characterized as durable social structures that are relatively resistant to change. In the social sciences, regulative, normative systems and cultural-cognitive elements are widely seen as ingredients of institutions (Scott, 2001; 2014). A review of the literature published after North (1990) shows that definitions are often broad and leave considerable room for interpretation. This interpretative space widens even more given the interest in informal institutions evident across multiple disciplines (Campbell, 2004; Peng, Lee, & Wang, 2005; Webb, Tihanyi, Ireland, & Sirmon, 2009). Interestingly, despite the variety in definitions, informal institutions are always defined in terms of their interactions with formal institutions and their position relative to those institutions. Across the disciplines, both types of institutions are viewed as dynamic in nature. Furthermore, in various disciplines ranging from sociology to international management, we find a common understanding that informal and formal institutions cannot be analyzed in isolation. Instead, they need to be assessed in relation to each other in order to understand their respective shapes. Indeed, formal and informal institutions coexist (see for example Scott, 2001 who considers formal and informal institutions as complementary) and their relationships could be best described as a form of symbiosis (“living together” in Greek), a term used in evolutionary biology to describe long-term interactions between two species. However, the understanding of these symbiotic relationships differs across disciplines.

Two approaches to defining informal institutions relative to formal institutions are widely established. These approaches also have implications for our understanding of why informal institutions persist. Advocates of the first approach would argue that “what is not formal is informal.” For instance, political scientists often describe informal institutions as unwritten and socially shared rules, and contrast them with formal institutions, which typically include rules enforced by state institutions (Azari & Smith, 2012). Indeed, Helmke and Levitsky (2004) emphasize this contrast:

Socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels. *By contrast*, formal institutions are “rules and procedures that are created, communicated, and enforced through channels widely accepted as official. (p. 727; italics added)

In this understanding of informal institutions as the opposite of formal institutions, normative primacy is given to formal institutions. More specifically, any institutional change starts with formal institutions and informal institutions follow because they act as “compensatory structures” to formal institutions (Matten & Moon, 2003; Peng, 2003; Peng et al., 2009: 68; World Bank, 2002). Sauerwald and Peng (2013: 854) confirm that “informal institutions gain importance once formal institutions are absent or weak.” Similar assumptions dominate the literature on institutional voids (Khanna & Palepu, 1997; Kostova & Hult, 2016). In that stream of literature, formal and informal institutions are typically seen as two ends of a continuum. If certain formal institutions are absent or underdeveloped, firms are expected to rely more on informal institutions to achieve their goals (Doh et al., 2017; Mair, Marti, & Ventresca, 2012). In the vein of normativity, the institutional voids literature focuses on formal rather than informal institutional voids when attempting to explain a government’s failure to provide a supportive institutional configuration that allows economic activities to thrive. In evolutionary biology terms, this type of symbiotic relationship could be

labeled “parasitic symbiosis” (i.e., when one of the coexisting species benefits, another is harmed). The more developed formal institutions are, the less relevant informal institutions will become and may even disappear.

The second approach has its starting point in informal institutions and follows the historical logic of formalization (Baudrillard 1987; de Soto 1989; Giddens 2013). Advocates of this approach follow the logic “put informal first and formal will follow.” A good example is the understanding of informal institutions found in social anthropology, where the interplay between the formal and the informal is tackled by referring to the mutual accommodation of rules, norms, structures, practices, legal codes, and non-codified relationships. Social anthropologists observe that the dynamics of human societies are shaped, on the one hand, by individual behavior, the embodiment of informal constraints, and self-expression, and by social structures, the embodiment of formal constraints, top-down power, and prescribed roles and expectations on the other hand. In this view, primacy is given to informal institutions followed by the formalization of constraints through the processes of modernization and institutional development. Consider, for example, the fact that some college campus planners have decided to allow students to walk across their campuses’ green areas as they see fit. Gradually, the desired paths emerge. Only then are they paved. In other words, social practices precede and produce social structures, and those structures emerge and develop before they become formalized.

Structuration theory focuses on the idea of social practices that stretch across time and space, thereby reproducing social structures while also accounting for changes enabled by variations in practices and individual improvisation (Giddens 1983). Language serves to illustrate the continuity of grammar as well as changes in the way we speak. We are constrained by grammar and vocabulary, but we also use them creatively. For instance, we invent child languages, social codes, vocabularies, and poetic forms that eventually transform

predominant frameworks. Furthermore, social historians suggest that practices emerge, develop, are institutionalized, and eventually reproduce themselves with a certain degree of predictability that is usually associated with formal institutions. In other words, informality precedes formalization and is absorbed into the institution-building process (Spiegel, 2005).

Urban-development studies offer another paradigmatic example of “informality first,” as informal settlements emerge ahead of formal infrastructures (see, e.g., the taxonomy in Boanada-Fuchs & Fuchs, 2018). In this context, informal dwellings include *campamento* in Chile, *favelas* in Brazil, shantytowns in Mexico, slums in India, and *chéngzhōngcūn* in China. They are characterized by the lack of at least three elements of infrastructure (e.g., sewage systems, electricity, running water, rainwater drainage, waste removal, house numbers, and access to public transportation). Given the visibility of such issues and the impossibility of eradicating the homes of so many, urban-development studies examine the role of dual policy making in tackling informality, where the focus is on preserving informal homes while formalizing infrastructure where possible. In sum, the formalization of rules and structures will not result in changes in informal institutions. Evolutionary biologists would call this type of relationships commensalistic—one of the coexisting species (i.e., formal institutions) benefits, while the other species (i.e., informal institutions) neither benefits nor is harmed.

We summarize these approaches in Table 1, in which we described their respective definitions of informal institutions, highlight representative studies, and list the disciplines in which each approach dominates. We also include the answers these approaches provide to the key question in this paper: What explains the persistence of informal institutions? As we explained above, the first approach (parasitic symbiosis) claims that the persistence of informal institutions is explained by the weakness of formal institutions, while the second approach (commensalistic symbiosis) argues that informality precedes the formalization process and is absorbed in the institutional framework from the bottom up.

- INSERT TABLE 1 AROUND HERE -

Despite the quality and contribution of the two approaches, we argue that there could be a third alternative in which formal and informal institutions coexist in symbiotic relationships. In evolutionary biology, this third type of symbiosis in which the coexisting species benefit from each other is called “mutualistic symbiosis”. Specifically, we suggest that the presence of formal and informal institutions does not indicate competing logics or contrasting dynamics that work in opposition. At the same time, it is not possible to determine whether formal or informal institutions come first. Instead, we view the interplay between formal and informal institutions through the prism of the informal networks upon which informal institutions rest. We define this interplay as *dynamic changes in social structures and social practices in response to changes in their formal and informal use, channeled through the informal networks upon which informal institutions rest.*

In line with this definition, we argue that informal institutions persist because of their ability to change and adapt in the face of mature formal institutions, while enduring internal consistency, continuation, and legitimacy (Deephouse & Suchman, 2008). The notion of institutions suggests stability. However, mega-trends of the 21st century are continuously challenging this stability. For example, “the process of globalization is often associated with the breakdown of traditional rules of the game and institutions, in particular through the weakening of national states and their order-creating capacities” (Djelic & Quack, 2008: 299). At the same time, to maintain their legitimacy, informal institutions should exhibit continuity in their regulative, normative, and cognitive power (Scott, 2001). We argue that the combination of continuity and change in the workings of informal institutions explains their persistence, regardless of the strength of formal institutions. As we explain in the next section, this unique ability of informal institutions to remain stable and be flexible at the same time is enabled by the dual functionality of the informal networks upon which they rest.

THE WORKINGS OF INFORMAL INSTITUTIONS: THE ROLE OF INFORMAL NETWORKS

Thus far, we have established that informal institutions do not become less important as the power of formal institutions grows, and that strong informal institutions may coexist with strong and effective formal institutions. However, informal institutions are not completely immune to changes in formal institutions. Instead, the persistence of informal institutions in the presence of formal institutions can be explained by the dual functionality of the informal networks upon which those institutions rest.

The central role of networks in institutional fields has been illustrated in multiple studies in sociological institutionalism (see Owen-Smith & Powell, 2008, for review). We use the term “informal networks,”¹ rather than “social networks,” to emphasize the tensions associated with using informal relationships in formal settings and to highlight the ambivalence, or dual utility, in the use of personal networks to get things done. An informal network can be defined as culturally embedded channels formed by informal dyadic ties between individual actors or, in other words, “a set of interconnected nodes” (Castells, 2001: 1) that draws its cohesion from peer pressure. People form informal ties through direct or indirect relationships, “as implicitly assumed, endogenously embraced, and flexibly enforced by peer pressures horizontally in a particularistic personalized process” (Li, 2007: 229).

In the proposed third alternative for the interplay between formal and informal institutions—mutualistic symbiosis—informal networks are at the core of the dynamic spiral that connects formal and informal institutions. Informal networks are geared by interactions

¹ For the purpose of this paper, we differentiate between formal networks and informal networks, which tend to be biographical by-products rather than intentionally accumulated capital, that channel non-market relationships into the markets. The paradox of informal networks, which are genuinely affective but also instrumental, produces a set of functionalities that, we believe, can be overlooked in approaches based on the binary ideal types of ties (strong and weak, bonding and bridging ties) and the social capital they entail (positive and negative).

among actors' behaviors, which produce social practices (behavioral level) and social interactions resulting in social structures (structural level). These, in turn, act as focal touchpoints with formal and informal institutions, respectively. Specifically, as many of the existing definitions indicate, informal institutions affect individuals' values, beliefs, and shared norms, which shape social actions (Weber's "habitual action," de Certeau's "*quotidien* practices," or de Sardan's "practical norms"). Through social interactions, individuals develop a shared meaning of the "rules of the game" (Geertz's "thick description," "local knowledge," Polanyi's "tacit knowledge"). As a result, individual actors facing a problem or reacting to a request rely on commonly accepted forms of human cooperation (e.g., informal practices like *benami* in India, *jeitinho* in Brazil, or *kombinacja* in Poland).

At the structural level, vernacular concepts referring to social structures that work, sometimes so efficiently that they undermine the workings of formal institutions, are instrumental in understanding the mechanisms underlying the interplay between formal and informal institutions. These concepts represent the focal touchpoint with formal institutions. For instance, *jeitinho* (Brazil) refers to a (creative) social technique of problem solving that utilizes emotional connections between acquaintances and between strangers (for a comprehensive definition, see Duarte, 2006; Lee Park et al., 2018). It consists of shared values, beliefs, and behavioral norms, and Brazilians perceive it as an important element of their cultural identity (Lee Park et al., 2018). Thus, *jeitinho* can be classified as an informal practice that is connected to indigenous values and norm systems, and to the (dyadic) structure that allows the values and norms of the informal practice to operate. Another example can be seen in the Japanese practice of *nemawashi*—an informal consensus-building technique that leads to agreement on an issue prior to a final or official decision-making deadline. In the Japanese business system, when a meeting is scheduled to decide upon an issue, a decision is often made in advance through the process of *nemawashi*. As such,

nemawashi is a common practice of decision-making that is shared and embedded in local values and belief systems (Machizawa, 2013; Liker, 2004).

This understanding of analytical dimensions captured at the behavioral and structural levels helps us move closer to an answer to our key question: Why do informal institutions persist in the face of formal institutions? We argue that informal institutions persist because of the dual functionality of the informal networks upon which they rest. That functionality originates from the “plumbing” role of networks (Podolny, 2001). Economic sociologists and organizational scholars have traditionally regarded networks as the markets’ “plumbing.” As such, networks are the channels or conduits through which “market stuff” flows, where “market stuff” encompasses information about exchange opportunities as well as the actual goods, services, and payments that are transferred between buyers and sellers (Podolny, 2001: 33). With regard to informal networks, the difference lies in the fact that the “stuff” being channeled is neither a commodity nor a gift. It involves favors of access, mutual help, and sharing opportunities that create competitive advantage, and it is inalienable from the relationships that keep the informal network together (Ledeneva, 1998; 2018). The ambivalence of informal networks, or their dual utility, accounts for many intricate “black-box” exchanges that channel emotional currencies and reciprocal obligations as opposed to the “trade-off between network diversity and communications bandwidth” identified by Aral and Van Alstyne (2011: 90).

We argue that this dual functionality enables informal networks to serve two purposes: they channel and adapt to the changes brought about by formal institutions, and they guard and enact the continuity of informal institutions. The dual functionality comprises the transmission and transformational roles of informal networks. In relation to the former, Owen-Smith and Powell view informal institutions and networks as “co-constitutive,” and they define networks as “channels through which institutional effects flow” (2008: 601).

Building on the arguments of Meyer and Rowan (1977), Owen-Smith and Powell discuss the generative potential of networks as transmission channels that, by generating categories and hierarchies, “help define institutions and contribute to their efficacy” (2008: 596). These authors conclude that “networks are essential to fields because they are both the pipes through which resources circulate and the prisms that observers use to make sense of actions” (Owen-Smith & Powell, 2008: 618). More broadly, Scott (2001) also emphasized the role of relational systems as one of carriers of institutions.

However, informal networks are more than simply transmission channels. As Padgett and Powell argue, networks handle transformational work: “Neither information nor products are inert sacks of potatoes passing through passive network-as-pipes. Information is transformed through communication protocols, and products are transformed through production rules” (Padgett & Powell, 2012: 9). These authors use the concept of autocatalysis, which they define as “a set of nodes and transformations in which all nodes are reconstructed through transformations among nodes in the set” (Padgett & Powell, 2012: 8), to argue for the network-folding mechanisms that “keep networks alive, resilient, and maintaining themselves through perilous time” (Padgett & Powell, 2012: 10).

In sum, as informal networks enable and facilitate interactions between the structural and behavioral levels, they can act as channels through which formal institutional effects flow (Owen-Smith & Powell, 2008). In addition, as individual actors are repositories of informal institutions, their values, norms, and beliefs are the most deeply ingrained in homogenous features of informal institutions, such as conventions, customs, and social norms (North, 1990). Hence, as institutional effects flow, their transformation through network-folding mechanisms is initiated in autocatalysis mode between the behavioral and structural levels with “positive feedback loops” and “cycles of self-reinforcing transformations” (Padgett & Powell, 2012: 8). Indeed, as Owen-Smith and Powell (2008: 618) suggest, networks are

“essential to institutional fields because they are both the pipes” through which institutional flows circulate, while the networks “are the prisms” that individual network actors use to make sense of their actions. Therefore, informal networks can channel and adapt to the changes brought into the institutional field by formal institutions, and simultaneously guard and enact the continuity of informal institutions.

Let us consider a few examples. Horak and Yang (2018) consider the case of informal institutions in South Korea enacted by *yongjo* networks, and suggest that they constitute a “civil religion” that pervades economic, political, and social institutions, which are, in turn, embedded in and guided by Confucian ideals (Bellah, 1967). The workings of informal networks adhere to the Confucian ideals of seniority and kinship ties (*hyulyon*), which are rather conservative in nature. Informal networks embody quasi-family governance, which prescribes how network members should communicate, command (older to younger), coordinate, and serve (younger to older) in dyadic relationships. Dyadic ties rely on the peer pressure of wider informal networks, which can be activated when needed (transmission work). Confucian values establish the frame for behavioral norms and values. Although they are rather rigid and do not change quickly, they still adapt to modern times (Horak & Yang, 2018). From a policy-making perspective, if there is a need to change the operating modes of informal networks, the influence of Confucian ideals would need to be transformed, especially in South Korea, which is still described as “the most Confucian country in Asia” (Holcombe, 2017: 6). An example of *yongjo* informal networks guarding and enacting the continuity of informal institutions can be seen in the gendered peer pressure to which women are exposed in Confucian societies, such as South Korea. As hierarchy is a central ideal in Confucianism, women have historically been treated as secondary to men. When it comes to hiring or promoting a candidate in a business context, decision-makers usually prefer men, as business partners feel more comfortable working or negotiating with men. This logic is not

viewed as gender discrimination, as it is a central ideal in Confucianism and therewith perceived as value neutral, natural, and not negative (Patterson & Walcutt, 2014).

Interestingly, although formal legislation has been introduced in support of gender equality in South Korea, its effectiveness is widely regarded as minimal given the strength of the informal institutions (Confucian values) and the male-dominated informal networks that guard and enact those institutions (Patterson & Walcutt, 2017; Patterson, Bae, & Lim, 2013).

Under normal circumstances, informal networks tend to resist change and to protect informal institutions (Bian, 2018; Horak & Klein, 2015). However, unique events, such as wars, crises, social catastrophes, or perhaps pandemics, can trigger transformative and disruptive changes in informal networks, as suggested by event system theory (Morgeson, Mitchell, & Liu, 2015). One example of an event that led to disruptive changes was the 1991 collapse of the Soviet Union, which had consequences for Russia's economy of favors (Ledeneva, 1998). *Blat* was pervasive during Soviet times. However, after the Soviet Union's collapse and subsequent changes in formal structures, the younger generation seemed to rely more on *svyazi* and to regard *blat* as a Soviet relic. Regardless of semantics, the informal networks adjusted to the ongoing changes in the institutional environment. As a result of this transformation work, the instrumentality of informal networks, often articulated as an ability to form and sustain "useful" friendships, persevered (Ledeneva, 2018; Smith et al., 2012). In this regard, informal networks both adapted to the changes in formal institutions and channeled those changes toward informal institutions, while guarding the core conventions of those institutions.

Another example of the persistence of informal institutions enabled by informal networks despite disruptive changes in formal institutions is Kazakh *rushyldyq* (referred to as *clanism* in management literature) in the 20th century. *Rushyldyq* is defined as a strong feeling of sub-ethnic identity with and loyalty to one's *ru*, or clan (Minbaeva & Muratbekova-

Touron, 2018). With the Sovietization of Kazakh lands in the beginning of twentieth century, the state stigmatized and criminalized *rushyldyq*. *Ru*'s social practices and structures adjusted to the pressures from the formal institutions and became invisible, yet they did not disappear. Consequently, *ru* divisions were never openly articulated, but instead were demonstrated by knowledge of own kin relations. The Soviets (i.e., outsiders) were never able to eradicate *rushyldyq* from political or social life (Minbaeva & Muratbekova-Touron, 2018; Schatz, 2004). As a result, clans and clan ties transformed, becoming less visible to the state but even more important in private and public spheres for ensuring access to key economic, social, or political goods (Schatz, 2004). Even with the advancement of the market economy in Kazakhstan, political appointments in the public sphere as well as recruitment, selection, and promotion in private companies still often comply with the clan logic (Minbaeva & Muratbekova-Touron, 2013).

In sum, informal institutions persist because informal networks enact, enable, and advance them by serving two purposes. Informal networks mitigate the pressures brought about by changes in formal structures. At the same time, they enable the informal constraints and, thus, maintain the continuity of informal institutions. They can exploit formal structures and constraints to serve informal interests, and simultaneously facilitate the adaptation of informal norms to modern needs. Both functions of informal networks must be present to ensure the persistence of informal institutions. Accordingly, we propose:

Proposition 1: The persistence of informal institutions can be explained by the dual functionality of the informal networks, which (a) channel and adapt to the changes brought by formal institutions and, in so doing, (b) guard and enact the continuity of informal institutions.

Some informal networks channel changes in formal institutions faster than others. In the following, we examine the features of informal networks that increase or decrease the persistence of informal institutions.

Channeling Change and Guarding Continuity: The Key Features of Informal Networks

There are numerous views on the features of informal networks, some of which overlap. Many scholars frame their views around the theme of social capital in order to analyze groups and communities (Burt, 2001; Coleman, 1990; Portes, 1998; Putnam, 1993), or to emphasize dyadic and egocentric ties (Bian, 1997; Lin, 2001). This stream of literature also distinguishes between the “bridging” (structure) and “bonding” (content) ties that form networks. The “bridging” form is advocated by, for instance, Bourdieu (1980, 1990), Portes (1998), and Burt (2001), all of whom view social capital as “a resource that inheres in the social network tying a focal actor to other actors” (Adler and Kwon, 2002: 19). “Bonding” views emphasize those network features of social capital that give “the collectivity cohesiveness and thereby facilitate the pursuit of collective goals” (Adler and Kwon, 2002: 21). For example, Coleman (1990) and Fukuyama (1997) offer studies reflecting the “bonding” approach. Building on the distinction between “bridging” and “bonding,” the extant studies differentiate between informal networks that are more instrumental and those that are more affective (Li, 2007; Horak et al., 2018).

The nature of networks in relation to their functions has also been debated. Some regard strong ties and closed groups as more effective for social-capital acquisition (Bian & Ang, 1997; Coleman, 1990), while others believe that large, open networks are most beneficial (Burt, 2001; Granovetter, 1983). For example, in cross-cultural studies, scholars have been particularly focused on relatively open networks, such as *guanxi* in China (Bian, 1997; Li, 2007; Luo, 2011; Luo, 2000; Yang, 1994) and *blat* in Russia (Ledeneva, 1998). Kinship-based networks have only recently started gaining some attention (Ford, 2018; Hotho, et al., 2018; Minbaeva & Muratbekova-Touron, 2013, 2018).

Using these features, we differentiate among four types of informal networks: “relatively closed,” “relatively open,” “relatively instrumental,” and “relatively affective.” As we argue below, networks of different types determine variations in the persistence of informal institutions—some channel change, while others ensure continuity.

A “relatively closed” informal network is relatively tight and has little diversification. Kinship-based networks and elite alumni networks are examples of such networks. It is difficult to extend these networks to include members who are outside the circle of the chosen elite, or not connected by “blood” or consanguineal ties (Engels, 1942; Sudarkasa, 1998). However, in many societies, the notion of kinship also includes “fictive” kinship ties with individuals who are regarded in kinship terms even though they are unrelated by blood or marriage (Collins, 2006; Hotho et al., 2018; Minbaeva & Muratbekova-Touron, 2013).

“Relatively open” networks are characterized by loose closure and greater diversification. In contrast to relatively closed networks, they can be extended by including members from different circles. Examples of such networks are *blat* in the countries of the former Soviet Union, *guanxi* in China, *inmaek* in South Korea, *jan-pehchan* in India, and *wasta* in the Middle East. These networks originate from different sources of connection, such as family, schools, universities, hobbies, work, and other ties developed during an individual’s lifetime. Due to their diversified nature, ties may be strong or weak, and they can be old or new. Moreover, tie status can be critical or regular.

Based on these arguments, we conclude that compared to relatively closed informal networks, relatively open networks channel more change to their informal institutions. Consider pipes as an analogy—if we keep the viscosity of a liquid constant, the flow rate of a six-inch pipe (a relatively open network) is higher than the flow rate of a two-inch pipe of the same length (a relatively closed network). We propose that informal institutions based on

relatively closed networks exhibit a higher degree of persistence than those associated with relatively open networks.

The second feature of informal networks relates to the nature of ties and variations in the ways individual actors engage with other network members (i.e., the affective commitment they are willing to make to the relationship). Such relations can range from “purely instrumental” to involving a “degree of affection” (e.g., Bian, 1997; Li, 2007). Lew (2013) finds that in East Asia, especially in South Korea, informal network ties are typically affective ties, as purely instrumental ties are uncommon and not highly regarded. Lew’s (2013) definition of informal ties in South Korea builds on earlier work by Hahm (1986: 323), who states that it “is nearly impossible ... to develop and maintain a personal relationship without emotional involvement” (see also Lew, 2013; Yang, 2006).

In our typology, we define the purposes that networks serve as ranging from non-instrumental (“regime of affection”) to instrumental (“regime of calculation”), which helps to qualify informal networks on the scale from “relatively affective” to “relatively instrumental.” We argue that both instrumentality and affection are present to different degrees in all kinds of networks. Even in networks built with the aim of being purely instrumental, a certain degree of affection develops over time owing to human nature. By “relatively affective” networks, we mean networks based on affective and network-oriented ties with personal sentiment as a primary component (Li, 2007). That sentiment is associated with trust and commitment. Notably, this does not exclude instrumentality from these relationships. In other words, in “relatively affective” networks, affection dominates instrumentality, while “relatively instrumental” networks involve ties that are more task oriented than people or feelings oriented.

We propose that informal institutions based on informal networks with affective ties exhibit a higher degree of persistence than those associated with instrumental ties. This may

be because instrumental relationships rely more on formal institutions and may disappear as soon as an instrumental tie is no longer perceived as useful due to the effectiveness of formal institutions. On the other hand, affective ties are associated with norms of reciprocity and a constituent part of the personal identity, which makes them more “sticky.” In terms of the pipe analogy, if we keep the diameter of the pipe constant, the flow rate of a fluid with higher viscosity (i.e., “relatively affective”) is lower than the flow rate of a liquid with lower viscosity (i.e., “relatively instrumental”).

Consequently, we suggest that informal institutions based on “relatively affective” and “relatively closed” informal networks exhibit higher degrees of continuity and slower rates of change than informal institutions resting on “relatively instrumental” and “relatively open” networks. We therefore make the following proposition:

Proposition 2: The persistence of informal institutions enacted by informal networks that are “relatively affective” and “relatively closed” is higher than the persistence of informal institutions enacted by “relatively open” and “relatively instrumental” networks.

As we hinted above, informal networks are never “either-or.” In every network, one can identify the key features that are relevant for the persistence of informal institutions. To illustrate our logic and enrich the arguments leading to the propositions, we use the empirical evidence provided by the Global Encyclopedia of Informality² (Ledeneva, 2018).

² The Global Encyclopedia of Informality project gathered qualitative evidence from 66 countries on five continents and identified almost 200 illustrations of informal institutions. The project focused on a broad range of informal activities, but its findings have direct implications for our understanding of the dynamics of the interplay between formal and informal institutions.

ILLUSTRATIONS

The Global Encyclopedia of Informality, a collective effort of 250 researchers, covers multiple cases of informal networks from numerous countries. It clusters informal networks under four umbrella concepts that we can map using the functionalities identified above: solidarity (“relatively affective” and “relatively closed”), domination (“relatively instrumental” and “relatively closed”), redistribution (“relatively affective” and “relatively open”), and market exchange (“relatively instrumental” and “relatively open”). It is possible to move between these network types, which is referred to as “permeability of borders” in the matrix (see Table 2). For example, an individual who benefits from elite school ties may also belong to a powerful clan and gain an advantage from his or her kinship ties, or simply use connections in a rather instrumental way. Most importantly, the typology suggested in Table 2 is not static and does not represent “pure” types of networks, as networks cannot be permanently locked into certain quadrants.

In the following, we exemplify our propositions with the functionalities of informal networks captured in the Global Encyclopedia of Informality project.

INSERT TABLE 2 AROUND HERE -

Solidarity: Relatively Closed/Kinship Lock-in Identity

In the case of kinship-based affiliations, network ties reflect a lineage-based identity and kinship belonging, which are strong, durable, and resilient forces. The extent to which network ties are exclusively related to kinship ties varies. *Uruuchuluk* refers to lineage-based identity in Kyrgyzstan, where ancestors, patrilineage, and genealogies are of fundamental importance (Ismailbekova, 2018). *Clanism*, which may initially appear similar to *uruuchuluk*, has a broader meaning in Kazakhstan, as it includes other fictive kin identities, such as long-lasting friendships, school ties, and neighborhood affiliations (Minbaeva & Muratbekova-

Touron, 2013). An interesting case is *kumstvo*, a network based on fictive kinship, which is found in Montenegro and the Balkans. These networks are established through official ceremonies in which individuals take on the role of godparents or serve as witnesses at weddings (Sedlenieks, 2018). Thus, the ceremonies formalize deep and important friendships, and allow for the extension of individuals' networks (Sedlenieks, 2018).

Kinship lock-in identity ties are characterized by a strong sense of belonging, which leads to a feeling of mutual responsibility and solidarity. For example, Ismailbekova (2018), who studied *uruuchuluk* by doing ethnographic fieldwork in Kyrgyzstan, found that an individual who breaks the rules of kinship-based affiliations might lose status and become an outcast.

The sense of social obligation towards kinship ties, especially blood ties, is extremely important in *clanism* or *rushyldyq* in Kazakhstan (Minbaeva & Muratbekova-Touron, 2013, 2018). The strength of this type of tie is reflected in the perception that it is "holy" in nature (Sedlenieks, 2018), which helps network members survive in societies where the level of trust in public institutions is low. For instance, adherence to *adat*, a Chechen system of customary laws and norms, supports the social order in a clan-based society of blood ties that lacks legitimate vertical authority (Ford, 2018). *Uruuchuluk* in Kyrgyzstan is another interesting example of how informal networks ensured the continuity of informal institutions under Soviet rule (see also the case of *clanism* earlier in the paper). Soviet authorities stigmatized informal networks and tried to destroy them. However, due to the concealable nature of informal networks, *uruuchuluk* avoided state surveillance and continued to play an important role in everyday life in Soviet Kyrgyzstan, as it was key for securing access to economic, social, or political goods; for finding jobs; and for political patronage. Notably, the importance of *uruuchuluk* in Kyrgyzstan rose substantially after the Soviet Union's collapse, as identities that had previously been hidden needed to be reorganized and renegotiated

(Ismailbekova, 2018). Kinship became crucial for social and economic positioning. It even led people to “take part in the mass protests ... from the events in Osh in 1990 and 2010 to the revolutions of 2005 and 2010” (Ismailbekova, 2018: 229).

To summarize, informal institutions enacted by solidarity-type informal networks tend to maintain continuity and exhibit the slowest rate of change due to the networks’ closeness and their sentimental character. Membership in such networks (with the threat of sanctions to enforce the implicit contract) can subject individual actors to restrictive social regulations and limit their individual actions (at the behavioral level). Numerous leveling pressures keep members in the same situation as their peers (Ledeneva, 2004) and strong collective norms (at the structural level) may restrict individual actions (Portes & Sensenbrenner, 1993). Non-compliance with the membership requirements can also result in a loss of reputation as a reliable member of the network.

Domination: Relatively Open/Elite Alumni Network

According to the Global Encyclopedia of Informality, elite alumni networks (which we would characterize as “relatively closed” and “relatively instrumental”) are powerful informal networks that are based on a strong sense of belonging. An important characteristic of societies in which this kind of network is particularly strong is the elite nature of higher education. This is the case in the UK, where solidarity and mutual support are strong among “old boys”—those who have passed through the private-school system and “Oxbridge” (a term implying the superior social and intellectual status of Oxford and Cambridge) (Kirby, 2018). The benefits of this informal system of connections and social capital are demonstrated by the following figures:

Of the UK’s top judges (High Court and Appeals Court), three-quarters (74 per cent) went to private school – the same proportion (74 per cent) that attended Oxbridge; of Members of Parliament (MPs), the figures are 32 per cent and 26 per cent, respectively; of the senior civil service, 48 per cent and 51 per cent... [G]iven that only 7 per cent of the population attend private schools (and far fewer Oxbridge), [the

figures] are emblematic of how moving in certain circles increases one's chances of success. (Kirby, 2018: 263)

In France, top management positions in both public and private companies are held by *corpsards*, who are members of the *grands corps de l'Etat*—networks of civil servants who play key roles in government and business (Alexandre-Bailly & Muratbekova-Touron, 2018). The cohesion of the *corpsards* is embedded in the sense of being part of an elite, mostly graduates of the prestigious *grandes écoles*: the École Nationale d'Administration (ENA) and the Ecole Polytechnique (a military engineering school) (Alexandre-Bailly & Muratbekova-Touron, 2018; Kessler, 1986). French CEOs and top managers are typically alumni of ENA, the Polytechnique, or the Hautes Etudes Commerciales (HEC) (Davoine & Ravasi, 2013). The elite alumni network associated with France's *grandes écoles* is as strong today as it was 40 years ago (Davoine & Ravasi, 2013), which testifies to the continuity of informal institutions, such as *pantouflage*. *Pantouflage*, which is “the practice of leaving a civil service position to obtain work in the private sector in France” (Alexandre-Bailly & Muratbekova-Touron, 2018: 240), is similar to the “revolving door” in the US context. Large private companies “acquire” *corpsards* from state-run institutions in order to gain personal access to government officials who are informally linked by strong alumni ties. Kessler (1986) observes that the *corpsards* possess two types of capital: the social capital of relationships and the technical capital of knowledge and methods. This is true of members of all elite alumni networks that are active and continually maintained, including the “old boys” network in the UK and the *hakyon-yongo* alumni network in South Korea (Horak, 2014).

Informal institutions enacted by domination-type informal networks will be more open to change than those enacted by solidarity-type informal networks. The change will take place only if the social tie is perceived as not useful and/or too costly. Satisfying reciprocal demands and, thus, reproducing trust generates costs. In other words, belonging to this kind of network creates obligations to the other members of the network, or an implicit contract.

Therefore, whatever advantages one derives from being embedded in the network (incurring less transaction costs) are counterbalanced by the obligations of the implicit contract (Bourdieu, 1986).

Given that these kinds of informal networks are relatively more instrumental, the informal institutions resting on them will exhibit lower degrees of continuity than the informal institutions resting on solidarity-type networks. Individuals will continuously compare the costs of maintaining the networks to the benefits offered. In this case, the continuity of informal institutions will be associated with individuals' evaluations of short-term or static efficiency (March, 1991; Schumpeter, 1942), while the degree of change in informal institutions will depend on effortless, subconscious, and semiautomatic activation of successful formulas embedded in social ties (Nelson & Winter, 1982).

Redistribution: Relatively Affective/Use of Relationships

Affective networks, such as *guanxi* in China, *inmaek* in South Korea, *jan-pehchan* in India, and *wasta* in the Arab region, are similar to “kin networks” in terms of the importance of sentimentality. However, they are more open to outsiders with affective ties. They often emerge from quasi- (or pseudo-) family ties, but they can also be based on social networks developed in schools or universities, or through shared hobbies or social events. In addition to *guanxi*, a typical (affective) network tie is *inmaek* (South Korea), which “stands for the social network in a general sense of one that one builds up in the course of one’s social life, whether purposefully or not” (Horak, 2014: 89). Affective networks, such as *inmaek*, are typically large and accessible (i.e., open) networks that do not initially serve a direct purpose but can be activated when help is needed. They can be regarded as friendship networks with an extended-family-like community spirit. While the level of affection varies depending on the parties’ involvement, there is an overall sense of a community that can be trusted. Similar to some instrumental networks, *guanxi* historically “served many functions of the missing

market economy” (Yang, 2018: 77). During the Maoist period, *guanxi* emerged in response to the state-run socialist society in which goods, jobs, housing, and other life opportunities were controlled by the state (Yang, 1994). The use of *guanxi* has not declined but its nature has changed. It is no longer needed to gain access to scarce products. Instead, it can be used to, for example, get a job, obtain a business permit, purchase real estate, rent space, or obtain an exemption to labor regulations (Yang, 2018).

To summarize, contrary to the informal institutions resting on the solidarity and domination networks, the informal institutions enacted by the redistribution type of informal networks tend to exhibit higher degrees of change due to their openness. They maintain continuity in their ways of functioning, but the nature of the favors obtained may change (as in the case of *guanxi*). As this type of network is not locked into kinship or alumni ties, it can be penetrated by outsiders.

Market Exchanges: Relatively Instrumental/Access to Resources

As highly open informal networks, market-exchange networks are the most instrumental in nature. Many of these informal networks emerge in order to overcome shortages in deficient economies. They are based on loosely tied groups of remotely connected friends and acquaintances. In the Soviet Union, *blat* was one such network. It was used to obtain goods and services that were in short supply or to bypass formal procedures (Ledeneva, 1998). *Natsnoboba* in Georgia, *vrski* in Macedonia, and *vruzki* in Bulgaria are other examples of networks in which favors are exchanged in order to gain influence or access to limited resources (Ledeneva, 2018).

Some of these networks, such as *natsnoboba* in Georgia (Aliyev, 2018), are not as common in modern times. Above, we offered an example of other networks that have evolved in modern Russia, one of which refers to *svyazi*, or administrative resources, rather

than to *blat*. This is an interesting example of how informal networks evolve with the transformation of a country's economic system. It also demonstrates the continuity, as both terms describe systems of obtaining services, information, goodwill, or (consumption) goods by circumventing formal procedures (Ledeneva, 1998, 2013). The literature offers no consensus as to whether *svyazi* is a competitor, replacement, or substitute for *blat* (Karhunen et al., 2018). However, definitions of *blat* and *svyazi* tend to be rather similar (e.g., Karhunen et al., 2018) or even exactly the same (e.g., Berger et al., 2017).

The informal institutions enacted by informal market-exchange networks tend to exhibit the lowest degree of persistence due to the openness of informal networks and their non-affective, often purely instrumental ties. In contrast to solidarity and domination networks (closed networks), market-exchange networks are more “inclusive” and adapt to economic changes faster. Their nature may even change (see, e.g., the discussion of *blat/svyazi*). Due to their instrumental character, these informal networks are positioned on the blurred boundaries between formal and informal economies, resulting in “the system made me do it” and “gaming the system” strategies (Ledeneva, 2018). The creation of efficient formal regulation will enable formal constraints and weaken the basis for instrumentality (e.g., squatting practices).

DISCUSSION

To address the gaps in our understanding of the persistence of informal institutions, we theorized about their workings. First, we highlighted three approaches to theorizing about the symbiotic relationships between formal and informal institutions relevant for delivering the answer to our research question: *What explains the persistence of informal institutions in the face of formal institutions?* The first approach, labelled “parasitic symbiosis,” views informal institutions as compensatory structures. It assumes that formal and informal constraints

constitute a continuum and explains the persistence of informal institutions by highlighting the strength of formal institutions. That is, if certain formal institutions are absent or underdeveloped, firms are expected to rely more on informal institutions to achieve their goals (Doh et al., 2017; Mair, Marti, & Ventresca, 2012).

The second approach to understanding the symbiotic relationships between formal and informal institutions is labelled “commensalistic symbiosis.” It sees informality as serving “to deconstruct the very basis of state legitimacy and its various instruments” (Roy, 2011: 233). According to this approach, informal institutions are existentially primary. Informality exists independently of formalization and depends on the observer, such that its understanding is in the eye of the beholder—“like a quantum particle, we find them in two modalities at once: informal practices are one thing for participants and another for observers” (Ledeneva, 2018: 7).

We proposed a third alternative that views the interactions between formal and informal institutions as “mutualistic symbiosis.” Drawing on interdisciplinary literature, we stressed the importance of viewing the co-dependent nature of the interactions between formal and informal institutions as dynamic changes in social structures and social practices in response to changes in their formal and informal use, channeled through the informal networks upon which informal institutions rest. We argued that although formal and informal institutions coexist, the persistence of informal institutions is independent of the strengths or weaknesses of the formal institutions. Instead, the persistence of informal institutions is explained by the dual functionalities of the informal networks upon which those institutions rest.

More specifically, we linked the persistence of informal institutions to the key features of informal networks that enable them to channel the changes brought about by formal structures while simultaneously guarding the continuity of informal institutions. Building on insights from the social capital literature (bridging and bonding ties) and empirical evidence

from international management research, we distinguished between “relatively open” and “relatively closed,” and “relatively affective” and “relatively instrumental” networks. We also argued that informal institutions that are enacted by informal networks that are “relatively affective” and “relatively closed” show a higher degree of persistence than informal institutions that are enacted by “relatively open” and “relatively instrumental” networks. Finally, we utilized insights provided by the Global Encyclopedia of Informality to illustrate our arguments.

Our work has several implications for theoretical and empirical research on informal institutions. First, we challenged the simplistic but widespread assumption that informal institutions weaken or even disappear as formal institutions become stronger. Our arguments call for a re-examination of the conventional but simplified view of formal and informal institutions as two parts of a whole or as two ends of a continuum. The mutualistic symbiosis view proposed in this paper suggests that the strengthening of formal institutions does not always lead to the weakening of informal institutions. As we argued above, in today’s highly networked and interconnected societies, we find increasing evidence that strong formal institutions coexist with equally strong informal institutions using solidarity (e.g., clans in Kazakhstan) or domination networks (e.g., old-boy networks in UK). Empirical studies that use the characteristics of formal institutions (e.g., state capture indicating the weakness of formal institutions) as proxies for the strength of informal institutions may need to reconsider this operationalization.

Our interdisciplinary approach to the coexistence of formal and informal institutions proved once again that there is no informality if one does not look for it (Ledeneva, 2013). Formal institutions are relatively easy to define, as they are generally easily accessible, transparent, and quantifiable, at least to some extent. In business practice, they are represented by the official and normative systems designed by management (Scott, 1981).

Hence, formal institutions lend themselves to analysis more easily than informal norms. On the other hand, the “banality of informality” allows it to permeate society while remaining unarticulated. Overcoming the simplistic view that “what’s formal is not informal” opens the door to a wide range of research on the workings of informal institutions and their subsequent influence on the development of formal institutions. Indeed, in extending the logic of this paper and applying the mutualistic symbiosis view, it would be interesting to investigate whether and how formal networks matter for the persistence and strengthening of normative institutions.

Equally interesting would be an investigation of whether and how informal networks can channel informal constraints into the formal institutions and, thereby, contribute to their reproduction.³ In such work, a great deal will depend on the context and on the status of the network membership. A certain behavior, such as seeking a competitive advantage in a situation characterized by scarce resources, can be seen as a solution by its protagonists but may create problems for the public good, other parties, or governments. The borderline between survival strategies (“weapon of the weak” in Scott, 1985) and the gaming of the system is blurred. The *habitus* of the dispossessed differs from the *habitus* of the elite. The perspectives of businesses often clash with those of the states. The elaborate social codes of youngsters are incomprehensible and perceived as damaging by elders. The crowded streets of oriental cities seem threatening to westerners (Hart, 1985). The view of the interplay between formal and informal institutions as mutualistic symbiosis accommodates the need for contextualization because it accepts the coexistent nature of the interactions between formal and informal institutions without giving normative primacy to any of the institutions.

³ We are grateful to Reviewer 1 for this idea.

Second, we identified the crucial role of informal networks as a channel for continuity and change in informal institutions. Although informal networks are present in all countries, studies of informal networks have mainly focused on emerging markets and transition economies. Early contributions on *guanxi* in China (Bian, 1997; Li, 2007; Luo, 2000, 2011; Yang, 1994) and *blat* in Russia (Ledeneva, 1998; 2008) allowed context-rich examples of networking from other countries and regions to enter the discussion. This research has contributed to the development of phenomenon-based research on informal networks in other transitional and emerging economies (Horak et al., 2018; Giordano & Hayoz, 2013; Minbaeva & Muratbekova-Touron, 2013; Morris & Polese, 2015). The focus on these countries is understandable—although institutional co-evolution is, in principle, universal, this process is more visible in transitional and emerging economies. As such, these economies serve as unique empirical laboratories for studying the dynamics of informal institutions. This is particularly true with regard to the nature and specific features of informal networks, as they are more difficult to understand, isolate, and analyze (Ostrom, 1990, 2008).

However, as we have seen from the insights offered by the Global Encyclopedia of Informality, it would be useful to accumulate more knowledge and further explore the axes suggested in Table 2 using a wider variety of informal networks. A better understanding of informal networks will not only help professionals understand the global environment but also provide the groundwork, guidance, and references needed to accurately design follow-up empirical inquiries and draw policy implications. As categorizing and defining informal institutions is a field of ongoing research, we should aim to launch parallel efforts to define and categorize informal networks. Therefore, future phenomenon-focused research should further explore the diversity of informal networks while simultaneously aiming for a higher

level of generalization about the functionalities of those networks that are relevant for the persistence of informal institutions.

The third important implication of our study is the applicability of the developed typology of informal networks (see Table 2) to the theory of international management, especially our understanding of the management of foreign operations. When operating in foreign markets, MNCs must create organizational responses to the institutional complexity created by the interplay between home-based formal institutions and host-based informal institutions (Oliver, 1991; Hotho et al., 2019). In so doing, MNCs need to either consciously or unconsciously deal with informal networks on daily basis. However, we know little about whether systematic processes are in place to manage these networks, as reported by Kim (2007) in the case of Samsung, or whether they are hidden, treated discretely, or even avoided. We believe that our typology of informal networks can be instrumental in this regard. The types of networks that dominate a market will determine the MNC's human-capital strategies. For example, MNC subsidiaries operating in markets with "relatively closed" networks must "buy" or "borrow" the human capital they need to achieve a high level of local network embeddedness. MNC subsidiaries operating in markets dominated by "relatively open" networks should prioritize a "build" strategy for their human capital. They must then decide whether to rotate key talents from other markets with relatively open networks or develop existing talents in the subsidiary.

In markets dominated by "relatively affective" networks, MNCs must decide whether a local adaption strategy or a high level of local network embeddedness are desirable. For example, any attempt to increase local network embeddedness in markets dominated by "solidarity" networks will require coordination with the "clan rules" defined by lineage-based identify and kinship belonging, which may not be viewed as ethical in highly individualistic societies (Hotho et al., 2018). Moreover, in such markets, a company's internal information is

often traded via informal networks or between people who are more loyal to their network than to a corporate code of conduct. Therefore, MNCs in those markets face a higher risk of intellectual property loss (Horak, 2014; Horak & Yang, 2016).

Finally, our work has implications for cross-cultural training in MNCs. We argue that knowledge of informal institutions, their building blocks, the underlying mechanisms, and informal networks is important for all employees, not just expatriate managers. Informal networks exist in all countries, as do formal and informal constraints. An understanding of the dynamic interplay between the formal and the informal serves as a basis for cultural intelligence, and creates the managerial competencies needed to effectively lead across markets.

CONCLUSION

Our key conclusion is that the complexity of informal institutions can only be understood by applying an interdisciplinary approach. By default, any one-dimensional or mono-disciplinary understanding of the interplay between formal and informal institutions is limited. Second, as dynamic changes in social practices and social structures are ongoing, channeled by informal networks, formal and informal institutions will always be in transition. Either of them can rest and even persist for longer periods of time, while the other can push them either towards effectiveness or ineffectiveness. Finally, while institutional co-evolution is universal in principle, this process is more visible in pluralistic societies, making them unique empirical laboratories for studies of the dynamics of informal institutions.

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TABLE 1. THREE ALTERNATIVES IN THE INTERPLAY BETWEEN FORMAL AND INFORMAL INSTITUTIONS

| | Parasitic symbiosis | Commensalistic symbiosis | Mutualistic symbiosis |
|--|---|---|---|
| Approaches to defining informal institutions relative to formal institutions | Formal and informal institutions are mutually exclusive substitutes | Formal and informal institutions are complements | Formal and informal institutions coexist |
| Rationale | Contrasting dynamic: what is not formal is informal | Prioritization: informality precedes formalization; some informal institutions become formalized, some persist as informal | Symbiosis: formal and informal institutions co-evolve; they are not mutually exclusive, but co-dependent |
| What explains the persistence of informal institutions? | Informal institutions play a compensatory role when formal institutions are absent or ineffective | Informality is existential; formalization of rules and structures may or may not result in changes in informal institutions | The persistence of informal institutions is explained by the dual functionality of the informal networks, which both channel and adapt to the changes brought about by formal institutions, and guard and enact the continuity of informal institutions |
| Disciplines | Economics; international business; political science | Social anthropology, structuration theory, theory of practice, urban development studies | Sociology, evolutionary biology |
| Representative studies | North (1995); Peng et al. (2009); Helmke and Levitsky (2004); Kostova and Hult (2016) | Bourdieu (1977); Giddens (1983); Boanada-Fuchs and Fuchs (2018) | |

TABLE 2. TOWARDS A TYPOLOGY OF INFORMAL NETWORKS

| | <i>Relatively affective</i> | <i>Relatively instrumental</i> |
|--------------------------|--|--|
| <i>Relatively closed</i> | Solidarity networks <i>Adat</i> (Chechnya) <i>Hyulyon-yongo</i> (South Korea) <i>Kumstvo</i> (Montenegro and the Balkans) <i>Rushlydyq</i> (Kazakhstan) <i>Uruuchuluk</i> (Kirgizstan) <i>Wantok</i> (Solomon Islands, Melanesia) | Domination networks <i>Grandes écoles' alumni</i> (France) <i>Hakyon-yongo</i> (South Korea) <i>Old-boy network</i> (UK) |
| | Re-distribution networks | Market-exchange networks |
| <i>Relatively open</i> | <i>Guanxi</i> (China) <i>Inmaek</i> (South Korea) <i>Jan-pehchan</i> (India) <i>Wasta</i> (Middle East) | <i>Amigos</i> (Latin America) <i>Blat, svyazi</i> (administrative resource) (Russia) <i>Natsnoboba</i> (Georgia) <i>Siwa</i> (Poland) <i>Vrski</i> (Macedonia) <i>Vruzki</i> (Bulgaria) |

Permeable

Based (with some exceptions) on the Global Encyclopedia of Informality, 2018

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