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# Turning a liability into an asset of foreignness: Managing informal networks in Korea

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## ABSTRACT

Although foreignness can bring both benefits and costs, much of the literature has focused on the liability of foreignness (LOF) while relatively little attention has been paid to the positive side. Despite the presence of LOFs, foreign companies may accrue some unique advantages from their foreign status, which are referred to as assets of foreignness (AOFs). Drawing upon social capital theory and institutional theory, this paper examines the issue of LOFs versus AOFs in the context of the informal networks in Korea and explores how foreign companies can manage their weaknesses in host country-specific informal networks to create value from their foreignness. We discuss two practical strategies, namely reactive and proactive strategies that can be used by foreign companies. While these two strategies can be pursued in parallel, this paper suggests that foreign companies should spend efforts and resources in pursuing proactive strategies with priority. This paper contributes to a more nuanced understanding of the role of foreignness in the international business context and provides practical insights into how foreign companies can leverage their foreign status in developing their own informal networks in Korea.

Keywords: asset of foreignness, informal networks, social capital, South Korea, *yongo*, *inmaek*

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## **1. LIABILITY VS. ASSET OF FOREIGNNESS**

When operating abroad, companies face the liability of foreignness (LOF) or inherent disadvantages arising from cultural and institutional differences relative to indigenous competitors due to their non-native status (Hymer, 1960; Zaheer, 1995). However, foreign companies may accrue some unique advantages from their very status as foreigners, which are often referred to as assets of foreignness (AOFs) (Sethi & Guisinger, 2002). Research has identified a range of AOFs including superior technologies and brand images (Brannen, 2004), incentives from host country governments (Sethi & Judge, 2009), and institutional circumvention (Regnér & Edman, 2014). However, there is still a paucity of knowledge about why and how AOFs exist. In particular, we know little about how foreign companies can turn foreignness into an asset rather than a liability (Mallon & Fainshmidt, 2017).

This paper aims to extend our understanding of how foreign companies can manage their LOFs and create value from their foreign status. LOFs are often country-specific because they mostly stem from the dissimilarity of regulative, normative, and cognitive institutions between home and host countries (Brannen, 2004; Eden & Miller, 2004). Scholars have discussed how foreign companies can alleviate or overcome LOFs in a specific country context (Elango, 2009; Klossek, Linke, & Nippa, 2012). AOFs are no different. Although home country characteristics (e.g., country of origin effects) and firm specificity (e.g., brand images) are important, AOFs are often more concerned with host country institutions and how foreign companies cope with host country-specific contexts (Mallon & Fainshmidt, 2017; Sethi & Judge, 2009).

This paper explores how foreignness could be turned into an asset in cultivating informal networks in South Korea (hereafter Korea). Drawing on social capital theory and institutional theory, we examine the role of informal networks in the Korean business environment and how foreign companies can effectively deal with the lack of host country-specific informal networks

and create value from their foreignness. Korea has been considered one of the most difficult markets for foreign companies to achieve business success due to language barriers, established business relationships, and social groups (Froese, 2019; Raymond, Mittelstaedt, & Hopkins, 2003). Over the last decades, Korea's regulatory environments and formal institutions have become more conducive to business operations, but informal institutions embedded in social networks and cultural intricacies still pose serious challenges for foreign companies doing business in Korea, regardless of their operation modes. Although rapid industrialization in the 1980s and the Asian economic crisis in the late 1990s have fostered the value shift towards Western individualistic thinking, Korea still has a very homogenous population (both ethnically and linguistically) that is highly collectivist and rooted in Confucian tradition (Shim, Kim, & Martin, 2008). In particular, informal social ties such as *yongo* (networks mostly associated with family, region, and school ties) and *inmaek* (networks developed during the course of one's life) that are considered as social capital with hierarchical, collectivistic, and Confucianistic attributes (Horak, 2014) still remain pronounced in the Korean business context across various functional areas including sales, business development, recruiting, and career progression (Hemmert, 2019; Horak & Klein, 2016). Therefore, foreign companies operating in Korea are inextricably related to the LOF problem associated with the lack of such Korean-specific informal networks. In particular, foreign companies may have more difficulties when dealing with formal institutional changes that are relatively prevalent in a transitional society like Korea. The absence of informal networks tends to pose greater challenges to foreign companies vis-à-vis local counterparts, which sometimes force them to leave Korean markets (Kim, 2020; Yoon, 2019) because informal networks play a crucial role in interpreting and understanding formal regulatory changes (Papageorgiadis, McDonald, Wang, & Konara, 2020).

This paper suggests two different approaches to deal with this problem. To begin with, foreign companies can adopt a reactive strategy that focuses on alleviating the LOF primarily based on isomorphism (Dimaggio & Powell, 1983). A typical approach concerns the attempt to acquire or have access to the lacking Korean-specific informal networks through local (Korean) people. Alternatively, foreign companies can use a proactive strategy that takes advantage of their foreign status of being exempt from local institutional pressures and burdens of maintaining informal networks (Kostova, Roth, & Dacin, 2008). This strategy may allow foreign companies to benefit from creative institutional deviance by establishing their own informal networks based on competitive strength that are different from local companies (Shi & Hoskisson, 2012). While foreign companies can pursue these two strategies in parallel, we suggest that foreign companies should proactively build their informal networks by taking advantage of foreignness rather than reactively alleviate the LOF by learning how to comply with local norms.

This paper extends our understanding of the role of foreignness in the international business context by exploring how foreign companies can leverage foreignness to generate specific AOFs and how far they can go against the grain of host country institutions. We also provide important practical insights into how foreign companies can utilize their foreign status in developing their informal networks in Korea.

## **2. INFORMAL NETWORKS IN KOREA**

Korea has unique informal networks such as *yongo* and *inmaek* that are prevalent and pronounced in the society. Although largely underrepresented in the literature compared to *guanxi* in China, both *yongo* and *inmaek* play important roles in the Korean business context, functioning as social capital or relational assets that increase trust and reduce transaction costs. Therefore, ignorance of their roles and the lack of such informal networks may substantially increase the LOFs for foreign

companies operating in Korea. Researchers highlight the role of learning and isomorphism as crucial mechanisms to overcome LOFs (Petersen & Pedersen, 2002; Zaheer & Mosakowski, 1997). Foreign companies learn local institutions and change their routines, practices, and behaviors over time to conform to local norms (Kostova & Roth, 2002). They also build local relationships and increase their embeddedness over time (Andersson, Forsgren, & Holm, 2002). Thus, foreign companies can acquire knowledge of the specific role of informal networks in conducting businesses in the Korean context over time. However, they would not be able to establish specific informal networks such as *yongo* and benefit from it simply because they are foreign. A large part of *yongo* is predetermined by birth, and hence, foreigners cannot develop such informal networks that many Koreans utilize in their business (Horak, 2018).

It is thus plausible to assume that foreign companies may suffer from perpetual disadvantages caused by the lack of *yongo* when doing business in Korea. This is partially true as some Korean counterparts accrue benefits from their *yongo* ties. However, we argue that this is not always the case because the very nature of *yongo*-based networks not only creates some institutional pressures to follow local norms but also incurs considerable costs to maintain the network for Korean companies. Foreign companies can count on their foreign status that exempts them from institutional pressures and the associated costs (Kostova et al., 2008). In doing so, they can further leverage their foreignness to develop more extensive and instrumental *inmaek* networks that are differentiated from those of local (Korean) competitors. Before we move on, we first explain the key characteristics of *yongo* and *inmaek*.

## **2.1. *Yongo***

*Yongo* is a unique conventional network form that embodies trust and affective-emotional ties. The syllable *yon* stands for ‘tie’, signifying a bond between individuals. The syllable *go* represents the ‘shared background’ on which the bond is based. *Yongo* is traditionally defined by the ties based on

kinship (*hyul-yon*), regional origin (*ji-yon*), and educational affiliation, especially high school and university (*hak-yon*), which provide members with a sense of ‘quasi-family’ belongingness (Horak, 2014). *Yongo* ties have been described as a type of social capital with hierarchical, collectivistic, and private attributes that are based on Confucian traditions (Lew, 2013; Yee, 2015).

The distinctive characteristic of *yongo* networks lies in their exclusivity and closedness. The two major antecedents of *yongo* networks are family affiliation and regional origin, both of which are determined by one’s birth. In that sense, *yongo* is largely inherent and immutable. The alumni affiliation is, of course, not given but it is often tagged along the individual’s entire career and used as an important background. Thus, *yongo*-based networks are rather exclusive and homogenous. Individuals tied with *yongo* share a common identity, either consciously or unconsciously, which could trigger an immediate development of a certain level of affection for each other. This increases trust, flexibility, tolerance, and mutual support within *yongo* networks, while it sometimes discriminates against out-group members and treats them differently (Kim, 2000). These ascriptive ties are believed to be more important in establishing relationships in Korea than in other East Asian countries such as Japan and China (Hitt, Lee, & Yucel, 2002).

It is noteworthy that the effectiveness of *yongo* networks is largely related to how much effort people put in maintaining *yongo* and how much other members are willing to accept one’s use of *yongo* ties. For instance, some people can purposefully utilize their *yongo* networks for job acquisition, career progression, information gathering, or managing government relations, while some others not. However, the individual’s attempt to use *yongo* networks may not achieve its purpose if the counterpart does not respond to the attempt, and sometimes such attempts could backfire. Therefore, the use and effectiveness of *yongo* networks are contingent on the individuals’ and the other members’ willingness to consent to *yongo*-based interdependencies.



## 2.2. *Inmaek*

*Inmaek* is translated as ‘personal connections’ based on informal ties that are developed in the course of one’s life. The syllable *in* stands for ‘person’ while the syllable *maek* represents ‘connection’. Thus, *inmaek* can be read as a general ‘networking’ that connotes a broader concept than *yongo* as depicted in Figure 1. *Inmaek* is established in a variety of ways and contexts based on reciprocal and continual social interactions. For instance, *inmaek* can be developed through mutual friends and acquaintances at workplaces, local church communities, neighborhood circles, and sports/hobby clubs.

*Inmaek* ties are different from *yongo* ties in that they do not follow identity-spending ideals in a family-like fashion by separating groups. Thus, *inmaek* ties are less exclusive and more inclusive to different groups. They value diversity and regard the extension of contact partners to be beneficial. *Inmaek* can also be regarded as a purpose-based network, that is, people often cultivate their *inmaek* networks to utilize and benefit from them. For instance, many Korean people consider work-based *inmaek* or career-based ties are significantly important and useful. A recent survey of 6,780 white-collar workers in Korea revealed that the majority of respondents (83%) consider the workplace *inmaek*, such as business partners, customers, and (ex)colleagues, to be the most beneficial network compared to relatives (19%), friends (36%) and alumni (28%). In particular, 91% of respondents manage their *inmaek* for their own interests in the workplace. Specifically, 53% claimed that they manage *inmaek* to obtain new information and knowledge related to their jobs and work, while 38% indicated that they cultivate *inmaek* to develop new customers, partners, and business relations (Jo, 2018). Table 1 summarizes the key characteristics of *yongo* and *inmaek*.

[Insert Figure 1 & Table 1 about here]

### ***2.3. Yongo and Inmaek still matter***

It is widely believed that institutional development decreases informal transactions. As a nation develops stable formal institutions, the influence of informal networks declines, and so does the reliance on relational governance in business exchanges (Peng, 2003; Peng, Wang, & Jiang, 2008). However, the mindset of an individual is influenced by the emotional orientation toward the community in East Asian countries (Li, 2009). Particularly in Korea, individuals are often viewed as part of their affection networks (Hahm, 1986), and they build quasi-familial relations based on affective ties and Confucian cultural traditions (Horak & Yang, 2018). Therefore, the relational exchange is not necessarily rendered obsolete by institutional developments and transitions. In fact, there is limited empirical evidence on the extent to which relational governance is being replaced by contractual, rule-based governance in business exchanges in Korea (Bstieler & Hemmert, 2015). Recent studies also find that the role of *yongo* and *inmaek* remains pronounced in various aspects (Hemmert, 2019; Horak & Klein, 2016) particularly in small and medium-sized enterprises (SMEs) and business exchange contexts (Horak, 2017).

## **3. INFORMAL NETWORKS AS SOCIAL CAPITAL**

The value of informal networks can be analyzed from social capital perspectives. Informal networks help companies generate social capital that is referred to as “the aggregate of resources embedded within, available through, and derived from the network of relationships possessed by an individual or organization” (Inkpen and Tsang, 2005: 151). The central proposition here is that networks of relationships are a valuable resource (i.e., capital) for an individual or an organization. Individual social capital (originating from an individual's network) can be distinguished from organizational social capital (that is derived from an organization's network of relationships). However, they are often interrelated, and both individuals and organizations can benefit from each other. For instance, an individual, as a member of an organization, can tap into the resources

derived from the organization's network of relationships without necessarily having participated in cultivating those relationships (Kostova & Roth, 2003). On the other hand, managers can help their companies create a partnership with another company through their own, personal social relationships. In this case, organizational social capital is created based on individual social capital (Inkpen & Tsang, 2005). Informal networks can produce valuable resources that enable the company to obtain crucial benefits such as privileged access to information and preferential opportunities for new businesses. Therefore, informal networks can become an important source of competitive advantages, which is difficult for competitors to understand and imitate (Barney, 1991).

The social capital accrued from both individual and organizational informal networks can significantly reduce transaction costs for companies especially those operating in foreign markets. When operating abroad, companies face increased transaction costs (e.g., searching costs, negotiation costs, and enforcing costs) due to high uncertainty and insufficient knowledge of the host country institutions (Hymer, 1960; North, 1990). The increased uncertainty negatively influences the speed and quality of decision-making (Weick, 1995) while the lack of information and knowledge of host country institutions makes foreign companies more susceptible to opportunism. Establishing local networks, especially informal ones, can help foreign companies bring down such transaction costs by allowing them to secure reliable channels to obtain trustworthy information about host country markets and institutions (Kostova & Roth, 2003).

Social capital is distinguished into two types, namely, bonding social capital and bridging social capital, based on its focus on internal and external relations (Gittell & Vidal, 1998; Putnam, 2000). Bonding social capital is based on the connections within a collectivity (e.g., group, organization, community) characterized by high levels of similarity in demographic characteristics, backgrounds, and available information and resources. Bonding social capital is usually derived from affective

individual ties that provide strong emotional and practical support and that require constant reciprocity among in-group members. Thus, bonding social capital is often driven by an exclusive network associated with resilient trust among in-group members rather than fragile trust typically involved in a certain transaction. When informal networks are strong and exclusive, bonding social capital is expected to generate a high level of trust that helps to reduce transaction costs among business partners within the network (Putnam, 2000).

In contrast, bridging social capital is created by social networks that are linked through actors with different backgrounds. It is more open and inclusive, and thus provides actors with increased chances of obtaining new information and resources. From a business practice perspective, bridging social capital tends to be more useful and instrumental in that it may allow companies to access new information and create a common pool of social capital contributed by individual social capital (Horak, Taube, Yang, & Restel, 2019). Bonding and bridging social capital can work together productively when they are in balance. If not balanced, they may work against each other. For instance, strong bonding social capital may create a clique and tends to prevent the formation of bridging social capital. Without adequate bridging social networks, bonding groups can become self-serving, exclusive gangs, and isolated from the rest of society (Putnam, 2000).

#### **4. *YONGO* AND *INMAEK* AS SOCIAL CAPITAL**

The key features of *yongo*-based networks are closely related to bonding social capital that represents inward-looking networks that reinforce exclusive identities and homogenous groups (Putnam, 2000). In-group members of *yongo*-based networks are more willing to make their resources accessible to other members due to the strong sense of belongingness and common identity shared among themselves. *Yongo*-based networks are likely to lead to a strong and closed exchange of critical information and resources predominantly between in-group members. Strong social cohesion and a high level of trust embedded within *yongo*-based networks help to reduce

opportunism. This, in turn, reduces the associated monitoring costs, providing crucial benefits over those outside the network.

However, *yongo*-based networks are not without costs. First, a *yongo*-based network in itself does not guarantee obtaining business deals or business success. It requires conscientious and deliberate efforts for an individual or a company to maintain and nurture the network. This is particularly true in a high-context society like Korea where reciprocity is expected and valued in business transactions. Second, a *yongo*-based network could lead an individual or a company to make an irrational decision due to assumed trust in in-group members combined with implicit bias against out-group members. There may exist even prejudice against the parties whose *yongo*-based networks are associated with a specific region or an alumni group. As a result, for example, a company may recruit new employees based on nepotism influenced by a *yongo*-based network rather than candidates' professional qualifications. Such poor decision-making can lead to inefficiency and ineffectiveness in business operations, hurting the company's performance. In the worst case, *yongo*-based networks could be a source of corruption since transactions may involve a lack of transparency and integrity (Horak, 2018; Lew, 2013). From a societal point of view, it is quite common for *yongo* networks to be in competition with one another for seeking favors, jobs, career advancement, and information. *Yongo* networks may serve their own interests at the expense of others, and hence, people with less *yongo* endowment may raise concerns about fairness and equal opportunities.

In contrast, *inmaek* constitutes bridging social capital that consists of outward-looking networks which "encompass people across diverse social cleavages" (Putnam, 2000, p. 22). *Inmaek* network is not confined to predefined relationships but open to various individuals and groups. A utilitarian motivation to build connections with diverse groups often leads to building *inmaek*-based networks. *Inmaek* is open and unconstrained as relationships can end by exit or simply by

expiration if not maintained. That is, for *inmaek* ties, individuals are not automatically ascribed to a certain group of people, but they have the discretion to carefully choose the network members to serve their business needs and instrumental purposes. Although it is largely true that individuals are required to spend a certain amount of time and effort to develop and maintain *inmaek*-based networks, they are less compelled to do it and also less susceptible to favoritism or corruption as the *inmaek*-based networks are rather open and loose compared to *yongo*-based networks. As with other social capital, the strength of *inmaek* ties is determined by the frequency of contact and the multiplicity and duration of the relationship. *Inmaek* ties with frequent contact and a long-term relationship usually entail strong instrumental values, in other words, effectiveness in real problem-solving. However, strong *inmaek* ties may also increase reciprocity, making it a moral obligation to help each other (Yee, 2015).

## **5. LACK OF INFORMAL NETWORKS AS A LIABILITY OF FOREIGNNESS**

Although the formation and function of informal social ties can be perceived differently depending on socioeconomic status and generations, many studies have found that *yongo* and *inmaek* still play an important role not only in the personal and professional lives of Koreans, but also in many contexts of Korean business (Horak, 2018; Lew, 2013; Yee, 2015). Recent empirical research also supports that informal social ties and relational orientation in inter-organizational business transactions still play an important role for exchange outcomes and collaborations in Korea (Bstieler & Hemmert, 2015; Hemmert & Kim, 2020). Therefore, foreign companies operating in Korea are inevitably confronted with the LOF associated with the lack of Korean-specific informal social ties such as *yongo* and *inmaek*.

Then, how can foreign companies overcome the disadvantages associated with the lack of informal networks when conducting business in Korea? Institutional theory suggests that isomorphism can provide a useful mechanism to overcome the LOF. That is, foreign companies

can substantially reduce their LOF by learning local environments and conforming to local institutions (Petersen & Pedersen, 2002; Zaheer & Mosakowski, 1997). This paper suggests that such an isomorphism-based approach represents a reactive strategy of foreign companies to meet the challenges arising from the lack of informal networks in Korea. On the other hand, research on AOFs highlights that the major source of unique advantage arising from foreignness concerns weak isomorphic pressures of the host country's institutional norms (Mallon & Fainshmidt, 2017; Shi & Hoskisson, 2012). Foreign companies may offset the LOF by actively taking the permission to break norms and developing unique *inmaek* based on their foreign status and competitive strength that Korean rivals cannot easily match. We suggest this approach as a proactive strategy that focuses on turning foreignness into an asset rather than a liability.

## **6. REACTIVE STRATEGY TO ALLEVIATE THE LIABILITY OF FOREIGNNESS**

Reactive strategy focuses on alleviating the LOF by learning how to comply with local norms and imitating what local competitors do. Foreign companies can learn local practices, values, and regulations and change their specific routines, practices, and behaviors over time to resemble local norms (Kostova & Roth, 2002). They can also establish relationships with local actors in the host country over time (Andersson et al., 2002). By doing so, foreign companies may gradually become more of an insider in a particular host country. Therefore, foreign companies may learn how *yongo* and *inmaek* function in Korea over time and attempt to benefit from their networks and relationships as Korean counterparts do. However, it often becomes a daunting task for outsiders to appreciate the role of informal networks and establish similar networks in Korea due to the particularistic and personalistic characteristics of *yongo* and *inmaek* that are fundamentally based on affective ties and Confucian cultural tradition. This is especially true for those, although not all, from Western countries where interpersonal ties in business are typically believed to be more rational and instrumental (Li, 2007; Li & Filer, 2007).

The primary approach of the reactive strategy is therefore related to harnessing the informal networks of local (Korean) people. A popular, well-known strategy for foreign companies to overcome the lack of informal social ties in Korea is to hire local managers who possess *yongo* and *inmaek*. Representative statements of larger empirical studies confirm that this is a frequently used option in practice. For instance, Horak (2017) revealed that a French logistics company tries to hire Korean mid-term career professionals from certain universities because the company understands that its business is very much relationship-focused and that from which universities its clients graduated and what universities have the largest informal networks. A German consulting firm in Korea also regards *yongo* of central importance in hiring decisions, especially in a sales position, in order to get a chance to start business or, in case of existing business ties, to maintain strong ties with its customers.

This approach of utilizing employees' informal networks is not necessarily limited to hiring processes but also applicable to institutionalizing the management of informal ties. Some Korean companies, especially conglomerate business groups, systematically manage the information of their employees' informal networks including personal relations and social ties. For example, Samsung and SK groups create *inmaek* maps based on the information collected from employees about their friends, relatives, and classmates working in government, political parties, the military, universities, and think tanks. By using this information, they can get connected with the target individuals in the most efficient way (Kim, 2007; Lee, 2006). Many SMEs also attempt to systematically manage their employees' *inmaek* created from their work. They believe that their employees' workplace *inmaek* with business partners and customers is not just a personal network but a critical intangible asset. By doing so, they can reduce the loss of their employees' workplace *inmaek* that otherwise would be lost when employees leave the company (Moon, Cho, Choi, Kim,



& Hong, 2019). Foreign companies can adopt similar practices to manage and harness their employees' *yongo* and *inmaek* ties.

Finally, using strategic alliances and partnerships constitutes another typical practice of reactive strategy. When foreign companies lack complementary resources in host countries, they can work together with local companies that possess complementary local assets (Hennart, 2009). By forming joint ventures or establishing strategic partnerships, foreign companies can utilize the informal networks possessed by their local partners. Multinational companies often use alliances with local partners particularly to benefit from their relationships (Li, 2001) while local companies with strong informal networks and social capital are regarded as attractive alliance partner candidates (Hitt et al., 2002).

Reactive strategy that focuses on learning 'the local (Korean) way' is appealing and provides some useful tools to alleviate the disadvantages associated with the lack of informal networks in Korea. However, foreign companies should understand that it also bears substantial costs and certain risks. Harnessing the employees' informal networks may incur considerable costs to understand their *yongo* ties and how they can be beneficial, while this may not guarantee the acquisition of the same level of informal networks as local counterparts in terms of scope and intensity. In other words, hiring local managers who possess informal social ties may lead to a single access point to networks, which would be too narrowly focused on one or a few individuals. There is also a risk that these individuals may become too powerful in decision-making within the organization, which may incur loss of control. Moreover, local employees may use a foreign company to accumulate social capital for their own gain and eventually leave the company taking those important networks with them as well as insider knowledge.

## **7. PROACTIVE STRATEGY TO TURNING FOREIGNNESS INTO AN ASSET**

Proactive strategy emphasizes taking advantage of creative institutional deviance (Shi & Hoskisson, 2012). Local companies often fail to challenge existing norms, expectations, and routines institutionalized in the society because this requires a great deal of time and effort to gain support from local constituents (Casile & Davis-Blake, 2002) and incurs substantial costs in the form of sanctions from actors who deem such challenge illegitimate (Jonsson & Regner, 2009). However, foreign companies can confront local norms with less costs because they are less expected to adopt locally established practices or social norms.

Local stakeholders are more tolerant of institutionally deviating practices and activities of foreign companies because the compliance expectation for them is often limited to the regulatory and legal domains. They are viewed as belonging to a different class altogether because of their foreign roots and origin. As a result, they are often shielded from institutional isomorphic pressures (Ikegami, Maznevski, & Ota, 2017). This means that, as long as they act within the boundaries of formal laws and regulations, foreign companies have the discretion to choose their appropriate level of responsiveness to the local institutional environment. Being exposed to a multitude of diverse practices and patterns of activity, foreign companies can enjoy a rich institutional landscape that allows them some latitude to choose patterns that they think fit them best (Kostova et al., 2008).

Therefore, foreign companies may overcome the disadvantages arising from the lack of informal social ties in Korea by deviating from the local way of building and capitalizing informal networks. Instead, they can proactively develop more extensive and instrumental social capital that bridges across different backgrounds not constrained by the Korean way and that cannot be easily developed by Korean rivals. Primarily, foreign companies can capitalize on their competitive strength and reputations to build their informal networks. The competitive strength and reputation

of foreign companies can affect their legitimacy in host countries, alleviate opportunistic behaviors of local stakeholders, and increase social acceptance of institutionally deviating behaviors (Kostova & Zaheer, 1999; Shi & Hoskisson, 2012). Moreover, large foreign companies with a strong brand name or technology leaders are usually seen as competitive players, and those credentials draw local attention and can be turned into networking power. Thus, foreign companies can effectively enhance their informal networks in Korea by driving various initiatives for collaborations and/or the public good to attract Korean companies and government/public organizations. For instance, Merck Korea (the Korean subsidiary of Merck, a German science and technology multinational firm) runs its M-lab collaborations center in Songdo that serves as a hotspot for the Korean Biotech industry. Merck Korea runs the facility, with the support of the local government, as a hub for Korean biotech companies where they can explore Merck's products and services, get training, develop their processes in a fully equipped environment, and speed up their overall time-to-market. By doing so, Merck Korea attracts many Korean companies in the related field and enhances its relationships with local partners and stakeholders (Kotra, 2017).

Foreign companies can also benefit from some Korean societal changes. Korea grew rapidly based on an export-led model that prioritized large conglomerates, i.e., *chaebol*, focusing on several key manufacturing industries. However, growth in exports and overall gross domestic production (GDP) has slowed down over the past decade. The Korean government seeks to find ways to diversify the economy's reliance on large conglomerates by supporting SMEs and startups (Economist, 2020). In particular, the government helps to promote SMEs to enhance their export capacity and international expansion by enhancing their global networks (Choi et al., 2015). Many government and public organizations such as KOTRA (Korea Trade-Investment Promotion Agency) and KCCI (Korea Chamber of Commerce and Industry) provide a variety of networking opportunities between SMEs and foreign investors operating in Korea. Foreign companies

operating in Korea have now become essential for the Korean economy, accounting for more than 20% of the country's export and almost 6% of employment (Kotra, 2017). They also provide crucial resources for SMEs to expand their global experience and networks. Many Korean companies, especially SMEs, are eager to build and expand their global networks by exchanging with foreign companies operating in Korea. In particular, they are keen to build "global *inmaek*" by extending the indigenous concept of *inmaek* characterized as bridging social capital. Foreign companies can capitalize on such organizational supports and keen interest of Korean companies and managers in building and maintaining informal networks with them (Choi et al., 2015).

The representative approach is to engage with chambers of commerce (COCs) activities. More than a dozen countries have their COCs in Korea that work closely with KCCI. They offer many initiatives to explore business opportunities and to network with Korean companies. They also maintain channels to local governments to advise on trade and business policies and support initiatives for industry-to-industry and industry-to-government networking. Moreover, foreign COCs in Korea have a variety of affiliated sectoral committees where many Korean stakeholders are also participating. They can provide the latest information and practical advice for foreign companies operating in Korea by linking them with local specialists in the related field. For instance, British COCs in Korea have recently created an affiliated fintech committee in which many Korean bankers and financial companies are also participating. This committee provides practical information and advice about the policy changes in Korea for British fintech-related businesses and also share best practices from the UK, one of the leading global fintech hubs, for Korean companies (Bae, 2020). French COCs that run three offices in Korea also provide various forums and networking events based on sectoral committees (e.g., innovation committee, luxury committee, energy committee) to facilitate exchange and expand networks between French and Korean companies (Yi, 2020).

Besides, many international business clubs (such as the Rotary Club and the Lions Club) and special interest groups for specific industries also represent international networking platforms at upper and top management level in Korea, providing various networking opportunities for their members through regular meetings, forums, and conferences. Foreign companies can build and expand their Korean *inmaek* more easily through these organizations because they can find many Korean members who are keen to build their global *inmaek*. For instance, Korea Foreign Company Association (FORCA) is a registered non-governmental organization that supports more than 15,000 foreign-invested companies operating in Korea by bridging them with high-ranking officials in government, sharing best practices, and building networks among members. Notably, the majority of executive members representing foreign companies in FORCA are Koreans and thus foreign managers can find some good opportunities to expand their informal social ties.

Although proactive strategy provides some benefits that cannot be achieved by reactive strategy, it does not come without drawbacks. First, proactive strategy calls for a long-term approach. Foreign companies often need to invest a long time to create proper *inmaek* in Korea. However, to be fair, Korean companies also need to spend substantial time to build proper *inmaek*. Second, foreign companies using proactive strategy should be aware of the risk that Korean companies may act opportunistically to gain their own benefits from networking with foreign partners. While the national, local, and international government and non-government organizations can offer good opportunities for foreign companies to network with Korean companies, these organizations cannot always filter out those companies fraught with potential opportunism.

Table 2 summarizes reactive and proactive strategies that can be used by foreign companies to cope with the lack of *yongo* and *inmaek* in Korea. In sum, foreign companies may alleviate the disadvantages associated with the lack of informal networks in Korea by using a reactive strategy, in other words, by trying to conform to local practices. However, they may also proactively

overcome the disadvantages by developing more instrumental *inmaek* that cannot be easily matched by Korean competitors, not being constrained by the Korean way but based on their foreign status and competitive strength.

[Insert Table 2 about here]

## 8. CONCLUSION

Foreign companies may find it very challenging to compete in Korea with their local counterparts due to a lack of informal, especially *yongo*-based, networks. Facing this reality, this paper suggests that foreign companies can adopt two strategies in dealing with this challenge in Korea, namely, reactive strategy focusing on alleviating the LOF by conforming to local norms and proactive strategy focusing on resisting pressures for normative isomorphism and taking advantages of foreign status. While reactive and proactive strategies can be pursued in parallel, we suggest foreign firms spend efforts and resources in pursuing proactive strategy with priority. Reactive strategy may offer some immediate benefits, but in the long run, proactive strategy can help foreign companies to work independently with fewer risks based on their corporate values and norms by developing their own informal networks that do not rest on the shoulders of a few local individuals.

Foreign companies should focus on creatively deviating themselves from the conventional local (Korean) ways of building and using informal networks by cultivating instrumental *inmaek*-based networks that are more effective in generating social capital that bridges different ties transcending the conventional *yongo*-based networks. Although Korean companies also strive to enhance their *inmaek*-based networks to extend the scope of informal networks and complement *yongo*-based networks, they sometimes face conflicts of business interests between these two informal networks. When this happens, many Koreans are often forced to choose *yongo*-based networks over *inmaek*-based networks due to the fear of sanctions from the community they belong to. The predetermined

nature of *yongo* networks tends to impose strong institutional pressures on Korean companies to diligently maintain them, even when they do not have clear intention to use them, because failing to do so may risk their legitimacy and ruin other relationships. For instance, asking someone for a favor based on *yongo* ties is (not always but) often difficult to refuse partly because, if it happens, it may jeopardize one's social relationships within the *yongo* group (Lew, 2013; Yee, 2015). This partly explains why drawing on *yongo* networks is typically associated with some negative public images of distorting fair competition and fostering cronyism, nepotism, and provincialism in Korea (Cha, 2003; Horak, 2018). Foreign companies can hardly fall into these kinds of scenarios as *yongo*-based networks are mostly out of question for them. This implies that foreign companies are in an advantageous position vis-à-vis Korean companies to build more instrumental *inmaek*-based networks, not being constrained by the pressure to consider *yongo*-based networks.

In practice, it is crucial for foreign companies to analyze and understand the characteristics and working principles of a respective network in their business in the host country context because their influence can be different across industries and countries. Once managers find that informal networks are pervasive when conducting business in Korea, they first need to understand how and to what extent they can affect their business and what function of the companies can be affected most. For instance, the impact of traditional *yongo*-based networks is likely to be weak in more open and globalized industries such as the automotive industry. Korea has a very well-established business structure and cost-competitive supply base in the automotive sector compared to other countries. Thus, it can be difficult for newcomers to be a part of the country's supplier pool and penetrate the local market due to the well-developed customer-supplier relationships between large conglomerates (e.g., Hyundai/Kia motors) and SME suppliers. However, since Korean auto manufacturers are global players that aim to meet the global competitive standard, foreign companies can compete with local suppliers mainly based on business value proposition driven by

cost, quality, and service. In fact, many German auto part suppliers such as Hella and Brose compete quite successfully in the Korean automotive sector by building strong networks with Korean companies based on their competitive specialty (Kotra, 2017). However, in contrast, foreign companies may find it more difficult to compete with local Korean companies in protected and more traditional industries such as textiles and agricultural products without cultivating informal networks that match those of local Korean counterparts. Service sectors (such as logistics and consulting) and most sales and project acquisition functions that generally require close contact with customers also represent where *yongo*-based networks are more relevant and important. Trust, loyalty, and the chance to exert peer pressures may play an important role in those sectors and functions, and this is more easily guaranteed through *yongo* ties (Horak, 2017). Therefore, foreign companies should first understand how the informal networks work and affect their own business in Korea, and based on that, they should develop the appropriate strategy to build their networks.

We conclude that the lack of host country-specific informal networks can be a double-edged sword for foreign companies. Depending on their capability to develop their own, differentiated informal networks, the absence of host country-specific informal networks could offer either a competitive disadvantage arising from foreignness or a window of opportunity to create advantages based on their foreign status. We argue that foreign companies should focus on building their own, instrumental informal networks rather than conforming to local norms in order to benefit in the long run. There is no shortage of evidence that country-specific informal networks and social ties still maintain their importance in various contexts of business in many countries. Some well-known examples range from *guanxi* in China (Bian, 2019) to *wasta* in the Middle East (ALHussan, ALHusan, & Chavi, 2014) and *blat* in Russia and large parts of the post-Soviet Union (Karhunen, Kosonen, McCarthy, & Puffer, 2018). These networks and social ties are embedded in the respective informal institutional environments, and hence, the constructs and nuances of these



informal networks vary across countries. However, they have in common that they play a subtle role in doing business in the respective countries while they are difficult to penetrate for outsiders. We believe our insights and suggestions drawn from the Korean case can be useful for finding the appropriate counterstrategy in other country settings where informal networking is pronounced.

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Figure 1. *Yongo* and *inmaek*

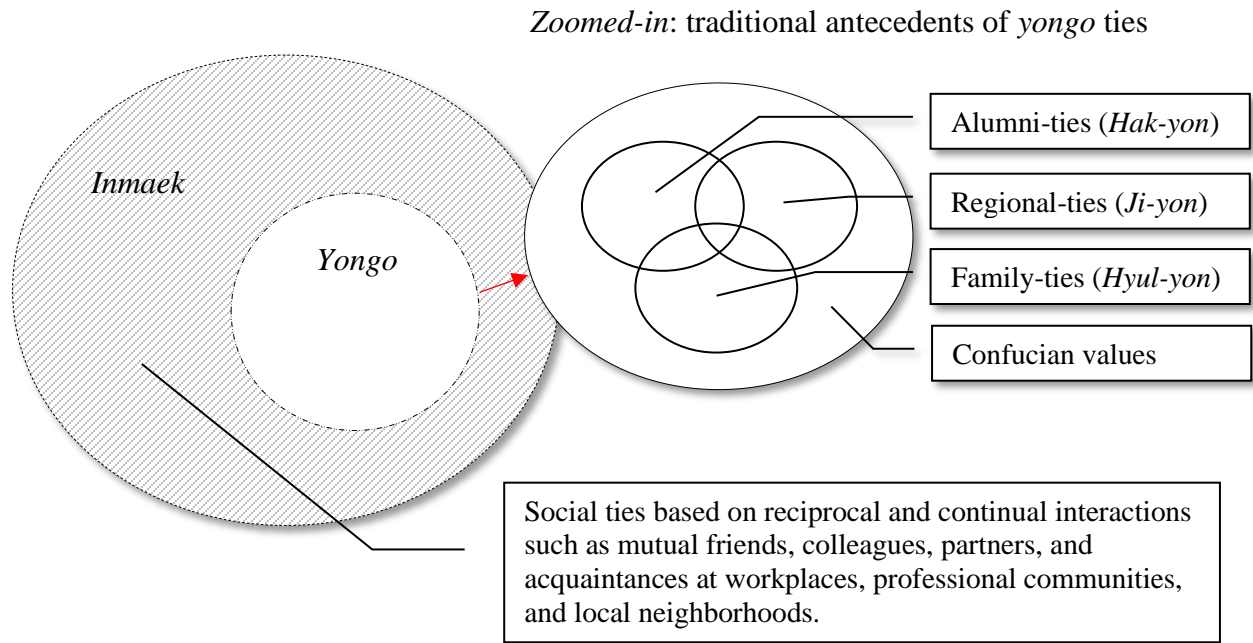


Table 1. Key characteristics of *yongo* and *inmaek*

	<i>Yongo</i>	<i>Inmaek</i>
Tie base	<ul style="list-style-type: none"> <li>Defined by three antecedents: family-based ties, regional origin-based ties, and education-based ties</li> </ul>	<ul style="list-style-type: none"> <li>Broad tie base, consisting of relationships formed in the course of life.</li> </ul>
Nature of ties	<ul style="list-style-type: none"> <li>Cannot be established (it pre-exists)</li> <li>Mostly pre-set (e.g., given by birth)</li> <li>Immutable and irreversible</li> </ul>	<ul style="list-style-type: none"> <li>Open, in principle, everybody can develop ties</li> <li>Ties can be ended or simply expire</li> </ul>
Diversity	<ul style="list-style-type: none"> <li>Homogenous</li> </ul>	<ul style="list-style-type: none"> <li>Heterogenous</li> </ul>
Receptiveness	<ul style="list-style-type: none"> <li>Exclusive</li> </ul>	<ul style="list-style-type: none"> <li>Inclusive</li> </ul>
Direction	<ul style="list-style-type: none"> <li>Bonding-oriented (inward-looking network)</li> </ul>	<ul style="list-style-type: none"> <li>Bridging-oriented (outward-looking network)</li> </ul>

Table 2: How foreign companies cope with the lack of *yongo* and *inmaek* in Korea: Reactive and proactive strategies

	Reactive strategy	Proactive strategy
Basic principle	<ul style="list-style-type: none"> <li>Focusing on alleviating the impact of the disadvantages arising from foreignness</li> </ul>	<ul style="list-style-type: none"> <li>Focusing on taking advantage of foreign status</li> </ul>
Rationale	<ul style="list-style-type: none"> <li>Based on isomorphism approach – learning what locals (Koreans) do and conforming to local norms</li> </ul>	<ul style="list-style-type: none"> <li>Based on resisting pressures for normative isomorphism and taking up permission to break norms</li> </ul>
Practices	<ul style="list-style-type: none"> <li>Harnessing the employees' informal networks (<i>yongo</i> and <i>inmaek</i>)</li> <li>Institutionalizing the management of informal social ties of employees</li> <li>Forming partnerships with local organizations to utilize the informal networks possessed by them</li> </ul>	<ul style="list-style-type: none"> <li>Developing instrumental informal ties (<i>inmaek</i>) based on their competitive strength and reputations</li> <li>Engaging with government and public organizations that facilitate the networking between Korean companies and foreign companies operating in Korea</li> <li>Taking advantage of the need/desire of Korean SMEs to build “global <i>inmaek</i>” by exchanging with foreign companies operating in Korea</li> </ul>
Limitations	<ul style="list-style-type: none"> <li>Hard to achieve the competitive advantages (at best, competitive parity) over local companies in terms of scope and intensity</li> <li>High dependence on certain employees</li> <li>Risks of losing important social capital with the turnover of certain employees</li> </ul>	<ul style="list-style-type: none"> <li>Take a long time to build their own <i>inmaek</i></li> <li>Risks of opportunistic behaviors of Korean companies</li> </ul>