

CHAPTER NINE

Informal Systems

A: Main Teaching Points (by textbook section)

In general, this chapter deals with informal relationships in and between organizations. It distinguishes friendships, patronage, and guanxi, and focuses on patronage. When the international manager works in countries where informal relationships are an important influence on business practice, he/she needs to understand how they operate.

9.1 Introduction

The introductory case shows how a patronage network can influence events and exert power within a formal bureaucratic structure. The informal relationships proved more powerful.

9.2 Informal relationships

The section distinguishes informal systems from formal structures (discussed in the previous chapter) and distinguishes friendship, patronage, and guanxi. This section is short, but should not be skipped. The distinctions have to be understood.

9.3 Patronage

This section describes the main characteristics of patronage. It is worth spending time contrasting formal relationships (defined by bureaucratic regulations and organizational structures) and patronage relationships. Both occur on a vertical axis, but are otherwise dissimilar.

Patronage relationships have to be distinguished from formal commercial arrangements, in which a deal does not commit the parties to, or reflect, a continuing relationship. Also, they should not be confused with normal friendship relationships

between peers (although patron and client may consider themselves friends). Patronage involves power, and the satisfaction of different needs for resources. These further points can be developed.

- The formal relationship is more likely to be restricted to the workplace; the patronage relationship is far less restricted, and easily embraces both professional and domestic activities.
- Resources distributed in a formal relationship are more restricted; the individual provides work, and the organization reciprocates mainly by paying money. The patron provides rewards out of his/her own resources or resources he/she directly controls. The formal superior rewards performance on behalf of the organization by paying out of organizational resources rather than by using his/her own resources.
- Formal relationships may be of short duration. They start, fully formed, when the individual is admitted to the post, and may be concluded at any time by giving notice to quit at the statutory time before the actual termination (for instance, at least three months ahead). But no one gives notice to quit a patronage relationship three months ahead.
- Formal roles are advertised (“wanted: assistant marketing manager, must have a university degree . . .”); patronage roles are not.

9.4 Patronage, society, and culture

Patronage cannot be simply dismissed as corrupt practice. This section shows how social and cultural factors encourage the growth of, and then sustain, patronage. Make the point that in any society, individuals attempt to meet their needs as conveniently and painlessly as possible. If formal and bureaucratic systems are insufficiently developed, individuals naturally resort to patronage relationships.

Hence, in a typical patronage society, patronage is not equally pervasive in *all* organizations. And in societies where patronage is generally not accepted (for instance, the United States), not all organizations are free of it. In any company where top management is remote, does not provide security, does not reward service adequately, does not allot work details fairly, and where individual managers have the resources to fill the void, members are likely to build patronage networks.

The top manager also acts as patron when organizational structures and systems are inadequate to guarantee the high performance and/or sustained loyal service he/she wishes. Where the environment calls for the organization to continually re-adapt in order to survive, he/she may prefer to act through a network of informal relationships rather than to depend upon formal structures which cannot be so rapidly modified.

If you sense that students are too quick in making ethical judgments about patronage without fully considering the social implications, ask them to discuss the first Class Discussion Question below (the problem of the sick child).

9.5 Government–business patronage

This section focuses on patronage relationships between organizations, whether in the public or private sectors. Make the point that guanxi relationships are always based on personal relationships between individuals, not between impersonal organizations. This is true even when the patron and client belong to different organizations and exploit their relationship to the benefit of their organizations.

9.6 Guanxi

Guanxi relationships are common in Chinese cultures. How far can guanxi be distinguished from patronage and how far should it be treated as a variant?

9.7 Managing informal systems

This section discusses the practical problems faced by both insider and outsider managers when dealing with informal systems embedded in their formal structures. Patronage presents a particular problem to bureaucracies in less-developed societies (the case in the introduction gives an example). The outsider may need to contain patronage rather than try to abolish it.

B: Implications for the Management Student

(This section modifies the material on pp. 203–204 of the textbook.)

Find an organization in which patronage plays a part. This might be in the public or private sectors, or a social club – for example, a social club in your business school.

1. What factors in the national culture and the organizational culture explain the existence, or non-existence, of patronage relationships in this organization? How far is their prevalence explained by:
 - Rules and regulations?
 - Levels of funding available?
 - The managerial skills of officials?
 - Opportunities for promotion within the organization?
2. If you can identify a patronage network, identify:
 - Which people are involved (as patron and as client(s))
 - What resources are exchanged between patron and clients
 - In what respects does the organization as a whole benefit from the activities of this network? (Consider factors including motivation, loyalty, speed of communication.)
3. In what respects does the organization suffer?

C: Class Discussion Questions

1. You live in a village in a poor, developing country. Suppose that your child is dangerously sick. You have no means of transporting him to hospital, 10 miles away. If you wait for a government ambulance, you may have to wait a week – or it may never come. But the village chief (or some other traditional patron) will reward faithful service by arranging for his own car to make the journey, at very short notice. Is it more sensible to depend upon the government service or to take advantage of the offer made by your patron? Which is the more ethical alternative? Remember that your child's life is at risk. If you accept the patron's offer, do you feel obliged to return the favor and, if so, how?
2. How do patronage relationships differ from formal relationships (for instance, those shown by an organizational chart)?
3. Identify patronage networks that you know of within your organization or country. Describe how they fit the model of patronage discussed in this chapter.
4. In patronage networks that you know of, what resources are commonly exchanged? Why are these resources valued?
5. Use newspapers and current affairs journals to find examples of patronage in your own and other societies. Look for examples within the private sector and the public sector. For each, identify patron and client(s) and explain how each party benefits from the relationship. Try to explain cases in which the parties depend upon patronage in preference to formal structures in order to meet their needs. Why is patronage more effective?
6. In Anglo cultures, patronage occurs frequently in politics and the arts. Why?

D: Answers to the Exercise

This exercise develops skills in distinguishing formal and informal relationships.

1.
 - a. Possibly only a friendly formal relationship between superior and subordinate. There is no indication of mutual obligation or resources being exchanged.
 - b. Patronage.
 - c. Friendly relationship between family members.
 - d. Friendship between Sandor and Rosa; a formal relationship between Rosa and her boss.
 - e. Quanxi.
 - f. Friendship.
 - g. Extortion.
2. Ask students to justify and debate their notions of which relationships are unethical.

E: Additional Exercise Material

Read this case and answer the questions.

An Indonesian development specialist was posted to his company's head office in the Netherlands to advise on the use of cheap construction materials. He identified a senior supervisor in the production department as a person with significant informal influence and set out to court him, taking him out for lunch on his birthday and visiting his mother in hospital. At an important planning meeting he confidently expected to receive the supervisor's support in endorsing his proposals. But the supervisor was lukewarm at best and the Indonesian felt bitterly betrayed.

- a. What mistake did the Indonesian make?
- b. How could he have dealt with the Dutch supervisor more effectively?

Suggested answers

- a. He assumed that models of patronage appropriate in Indonesia were also appropriate in the Netherlands. This is *not* to say that patronage never occurs in Dutch companies, but the context is different; and, therefore, so are the relationships. This means that strategies for forming patronage relationships must also be different. His open campaigning of the supervisor was unlikely to build respect.
- b. In a marketplace bureaucracy, where individuals need to build professional links within the organization, competence in an area which would bolster his supervisor's influence might have secured the support that the Indonesian needed.

F: Test Bank

1. Friendships occur:
 - a. On an individual horizontal basis only
 - b. On an individual vertical basis only
 - c. On both horizontal and vertical bases
 - d. On both horizontal and vertical bases, and in cliques.

(Answer, d: pp. 189–90)

2. A patronage network:
 - a. Usually involves a single patron and a single client
 - b. Involves a number of patrons and a single client
 - c. Never involves a single patron and a single client
 - d. May involve a patron and a number of clients.

(Answer, d: p. 190)

3. Patronage relationships serve as means to distribute:
 - a. Economic and financial resources only
 - b. Non-economic resources only
 - c. Different types of resources
 - d. Votes for money.

(Answer, c: p. 190)

4. In patronage relationships, exchanges are usually made between:
 - a. Dissimilar resources
 - b. Similar resources
 - c. Complementary resources
 - d. Dissimilar economic resources.

(Answer, a: p. 191)

5. The principle of mutual obligation means that:
 - a. The two sides exchange the same types of resources
 - b. A favor must be immediately reciprocated
 - c. A material gift must be immediately reciprocated by a symbolic offering
 - d. Each side can be confident that a favor given will be reciprocated – in time.

(Answer, d: p. 191)

6. The client who does not wish to reciprocate a favor from his/her patron:
 - a. Can easily find a new patron
 - b. Gains a reputation for unreliability and disloyalty
 - c. Compensates by paying a fine
 - d. Loses his/her job.

(Answer, b: p. 191)

7. A patronage network:
 - a. Restricts its resources to insiders, and excludes outsiders
 - b. Is a device for bringing in outsiders
 - c. Is a device for rotating the roles of “patron” and “client”
 - d. Shares resources with only those outsiders who are friends of the patron.

(Answer, a: p. 192)

8. Patronage relationships are found in:
 - a. Perhaps all countries
 - b. Only poor, developing countries
 - c. Chicago, Italy, and Asia only
 - d. All countries before 1976; now only in less-developed countries.

(Answer, a: p. 192)

9. In all countries, patronage thrives in politics because:
 - a. Politics gives a priority to social connections
 - b. All politicians are corrupt
 - c. Political parties everywhere lack formal structure
 - d. None of the above.

(Answer, a: p. 192)

10. Patronage offers hopes of social justice:
- Wherever central authorities are too weak to provide it
 - Only in poor, developing countries
 - In Chicago, Italy, and Asia only
 - In all countries before 1976; now only in less-developed countries.

(Answer, a: pp. 193–4)

11. Quanxi relationships are unlike patronage relationships in that they:
- Occur only on a vertical basis
 - Frequently occur on a horizontal basis
 - Can occur on either a vertical or horizontal basis
 - Have no fixed duration.

(Answer, b: pp. 199–200)

12. The importance of patronage within the organization declines when:
- The organization adopts rules banning it
 - Employees have greater social and economic mobility
 - The government bans it
 - The organization adopts impersonal rule systems, and environmental conditions also change.

(Answer, d: pp. 202–203)