CHAPTER 23

The Value of Informal Networks in Business

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ABSTRACT

Informal networks are at least as critical to the success of organisations as are formal systems, structures and strategies. When thinking about what makes good performance, informal networks are neglected in favour of formal networks, yet they are formed through personal contact, shared experience and accumulated trust. They can help or hinder the communication, decision-making, leadership, innovation and development of the organisational culture. This paper looks at the role of informal networks in business from three perspectives — conceptual, practical and strategic. Based on management theory, organisational behaviour, and reflective observation, it proposes that informal networks do not impede formal networks but complement them and that they do much to increase an organisation's ability to adapt. It investigates their role in the sharing of tacit knowledge, in decision-making, culture, leadership development and career progression, entrepreneurship and innovation, and the well-being of employees, as well as their unique role in the context of change and cross-cultural and digitally-mediated environments. The paper also reflects on the "threats" these networks pose – favouritism, exclusion and informal influence misuse – and the ethical and inclusive practices that are needed to manage them. Informal networks are a key component of social capital in every organisation and their role in creating sustainable competitive advantage is set to rise in the future as the global economy is becoming more and more dynamic.

Keywords: Informal networks; Social capital; Knowledge sharing; Organisational culture; Networking.

1.0 Introduction

Business organisations have conventionally been constructed and operated through formal rules and systems that define authority, responsibility and accountability.

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Organisational charts, job descriptions, policies and procedures allow managers to coordinate activity and to establish clarity and control, and such mechanisms are indispensable to stability and continuity, particularly in large and complex organisations. Formal structures alone, however, do not adequately describe how organisations actually function. In their daily work employees rely on informal relationships rather than formal procedures to gather information, resolve difficulties and reach decisions.

Conversations during breaks, unscheduled meetings, discussion among peers and mentoring relationships generally bear more directly on an employee's performance than formal channels of communication. These interactions constitute what are termed informal networks, which operate alongside the formal structures of an organisation (Krackhardt & Hanson, 1993). They consist of relationships that form naturally on the basis of trust, shared experience, common interest and social contact, and because they appear in no organisational document their influence on behaviour, attitude and outcome is easily underestimated.

Reflection on actual workplace experience makes clear that informal networks play a critical part in forming an organisation's culture and in determining whether formal strategies are effectively implemented. Flexibility and responsiveness are key in a world of globalisation, digital transformation and constant change and informal networks allow for rapid dissemination of information and collaboration to flow freely beyond functional and geographical boundaries, making them all the more useful in times of uncertainty. The manager, the entrepreneur and management student will have to know these networks for effective leadership and continued success.

This article reflects and analyzes the significance of the informal networks in business. Identifies informal networks, explores their origins, identifies their underlying characteristics and reviews the impact of informal networks on the spectrum of organisational activity.

2.0 Concept Explanation: Informal Networks and Social Capital

The informal networks in an organization are those patterns of interaction and relationship that are not planned. They grow, emerge, from repeated meetings, joint working on joint projects, social association and the gradual build up of trust. They aren't built by management – they're built over time by themselves. These networks include friendships within the organisation, peer-to-peer support groups, informal mentoring and professional relationships outside of the organisation. They feature friendships that have no clear hierarchical order and that span the department and are more easily accessible to information and influence than a formal organization map would suggest. Informal networks are theoretically linked to the notion of social capital, which refers to the resources that are contained within social relationships, which enable people to act together to achieve common goals (Bourdieu, 1986; Coleman, 1988).

In environments where trust, shared norms and mutual understanding exist, people are more likely to cooperate and the cost and uncertainty of transacting is reduced as well (Nahapiet & Ghoshal, 1998). It has also been studied from an organisational behaviour perspective. Early studies done at the Hawthorne works showed that the social environment and the relationships in the environment had great influence on motivation and productivity (Roethlisberger & Dickson, 1939; Mayo, 1933).

Unwritten rules and norms about behaviour and attitude in a workplace are also often created by informal networks and these unwritten rules and norms can have a greater influence on behaviour than formal policy. Informal networks represent, in short, the human dimension of an organisation. They serve to remind managers that an organisation comprises a social system as well as a technical one, and that the connections between employees are consequential rather than incidental. Understanding them allows managers to see how influence, power and collaboration operate in practice rather than in principle.

3.0 The Functions and Effects of Informal Networks

3.1 Informal networks and knowledge sharing

Informal networks are of particular significance in the transfer of knowledge. Formal systems — reports, databases and training programmes — document explicit knowledge effectively, but informal networks are the principal means by which tacit knowledge moves: the insight and practical understanding of how tasks are actually accomplished, which resists formalisation (Nonaka & Takeuchi, 1995).

Faced with a decision or a difficulty, employees ordinarily turn to colleagues whose judgement they trust rather than relying solely on formal guidance. Informal conversation allows them to interpret formal information, to understand its context and to apply it appropriately. Considering how learning actually occurs at work, many practitioners would accept that informal mentoring contributes at least as much to the development of skill as structured programmes do. Networks of this kind therefore enhance an organisation's capacity to develop its workforce and support a culture of continuous learning, while also providing the means by which an organisation may respond quickly to unfamiliar challenges and emerging opportunities.

3.2 Decision-making and problem-solving

Decision-making depends heavily on informal networks. Managers commonly draw on them to test ideas, to assess risk and to obtain perspectives differing from their own, and such networks frequently give access to information unavailable through formal channels.

Informal consultation also assists in building consensus. It allows a manager to gauge how others are likely to respond to a decision before it is taken and to identify the obstacles that implementation would encounter, thereby reducing resistance and improving the prospect of a successful outcome. Where formal rules and support are sparse, the resolution of a problem depends almost entirely on the experience and judgement available within an individual's informal network.

3.3 Influence on organisational culture

The character of an organisation is not determined by any single person or document. Culture is constituted by the daily interactions between people, since it is through these that trust, cooperation and a shared sense of purpose are built. Positive informal networks encourage collaboration and innovation; where people feel themselves part of a group and supported by colleagues, the working environment becomes productive. Where such networks turn negative, they obstruct collaboration, foster favouritism and exclude those outside them.

Managers must therefore understand the informal networks operating around them if they wish to influence culture at all. Many programmes of cultural change achieve nothing precisely because they address formal arrangements while leaving the underlying social dynamics untouched.

3.4 Leadership development and career advancement

Leadership development and career progression depend substantially on informal networks. Such networks are the means by which access to mentors, sponsors and influential colleagues is gained, as well as the means by which guidance, candid feedback and professional visibility are gained, typically not through formal programmes (Ibarra, 1993). Leadership effectiveness is determined by relational capability as much as by technical competence, and informal networks materially increase a leader's capacity to mobilise support and to influence outcomes. For aspiring managers and entrepreneurs, networking is accordingly best regarded as a strategic investment rather than a social pastime.

3.5 Informal networks in entrepreneurship

For entrepreneurs, informal networks constitute the principal source of resources and support. Personal relationships supply funding, partnerships, customers and expertise, and start-up ecosystems depend on informal interaction for the exchange of ideas and the formation of collaborations. Such networks also provide emotional support during the periods of uncertainty that characterise entrepreneurial activity. They supply people who help an entrepreneur develop resilience and learn from failure, which is what allows adaptation and growth as obstacles are encountered. Informal networks are in this sense a constituent element of innovation and of new venture development.

3.6 Innovation and creativity

Innovation seldom emerges from formal and tightly specified processes alone. Informal networks provide the setting in which experimentation, collaboration and the exchange of unfamiliar ideas occur, and informal conversation across disciplinary boundaries frequently generates possibilities that no formal process had identified.

Organisations that encourage informal contact and provide the physical and temporal space for it tend to be measurably more innovative. The management of innovation must therefore attend to social dynamics and not solely to technical process, since informal networks supply precisely the connections between differing perspectives from which unconventional solutions arise (Burt, 1992).

3.7 Historical evolution of informal networks

Informal networks have been around since the time of trade. In family businesses and merchant guilds, trust-based relationships and not impersonal contracts, were the ones that played a role in granting credit, opening markets as well as access to information. Commerce went on without any formal theory of management even being put forward; it was based on personal reputation and social relationship.

Informal networks did not disappear as a result of the development of the large organisation, but were instead situated within a formal organisation in which they were hidden from sight. This history is a reminder that the informal network is not new in the world of business organization but was the original basis of it and that the continuing importance of relationships is evident in the practices of family owned business and small business today.

3.8 Cross-cultural and global business

However, in an international context informal networks have a key role in linking the differences between cultures and institutions. Business cultures often depend on personal trust, not just a formal contract, and informal networks help to make cross-border collaboration possible, foster understanding and mitigate uncertainty.

Thus cultural sensitivity and relational judgement must be developed by managers working at the international level. These networks help to maneuver through complicated regulatory landscapes and to maintain enduring relationships, especially in settings where initially informal relationships are often formed and maintained before formal contract negotiations begin (Uzzi, 1997).

3.9 Digital transformation and virtual networks

Digital communication has had a profound impact on informal networks. Informal exchange is now much more than just occurring in the workplace because messaging apps, professional platforms and collaborative tools allow people to exchange knowledge and forge relationships that would be impossible to create otherwise, even if they are working remotely. But the paradox is that there is. While mediated communication is more accessible than ever, it is more difficult to establish trust and gain access to sincere communication than in an in-person context. Leaders, then, need to be vigilant about the behaviour of virtual networks to ensure that they don't become a series of small, self-selecting networks.

3.10 Informal networks and employee well-being

In addition to a significant role in supporting well-being through emotional support, a sense of belonging and psychological safety, informal networks also provide a vital source of support. Stress, workload and disruption that comes with organisational change are often shared within such networks and colleagues assist each other in managing the stress. Organisations in which positive informal interaction is common tend to record higher engagement and lower turnover, and informal support complements formal human resource practice by meeting emotional and social needs that policy cannot address.

3.11 Informal networks during change and crisis

Although change is formally communicated through hierarchical channels, informal networks generally become more active during periods of change or crisis. Employees place greater confidence in the assessment of trusted colleagues than in official announcements when judging whether a change initiative is genuine, and informal leaders consequently function as opinion formers whose views shape the response of others.

The management of change therefore requires that informal networks be understood and engaged. Leadership that disregards them risks encountering resistance and miscommunication, whereas working with informal opinion formers accelerates acceptance and alignment considerably.

3.12 Ethical dimensions of informal networks

Informal networks generate value, but they raise significant ethical concerns as well. Favouritism, exclusion and the misuse of influence are all real possibilities, and decision-making dominated by informal relationships and lacking transparency undermines both fairness and the principle of merit. Informal power structures may also come into conflict with formal authority where the two are not aligned. A reflective approach to management requires that these risks be weighed explicitly. Leaders must ensure that informal networks operate within recognised ethical limits and that they serve organisational values rather than private agendas. Ethical leadership combined with deliberate attention to inclusion is what allows such networks to contribute positively to organisational outcomes rather than distorting them.

4.0 Conclusion

Informal networks are an important but underutilized aspect of business organisation. They influence communication, decision-making, learning and culture in ways not possible through formal structures. It is a reflection of theory and practice that they complement formal systems and provide flexibility, confidence and humanity. Organisations that value and harness informal networks in an ethical manner gain a huge competitive edge, while managers and entrepreneurs who are aware of these networks have an improved ability to lead effectively, to innovate and to manage change in a dynamic business environment. Relationships are the key to business success! As a reminder, informal networks are a reminder that organisations are social systems, and that it's human connection that creates value that lasts.

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