The Two Faces of World Society: Formal Structures and Institutionalized Informality

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Abstract: The world polity approach has highlighted the increasing homogeneity of states and organizations but also the decoupling of their “formal structures” from “actual practices.” The concept of decoupling thus accounts for variation beneath a seemingly homogeneous surface or even façade. Yet neo-institutionalism does not provide much insight into the social structures that lead to and perpetuate decoupling; it merely pits formal structures against “actual practices” but does not analyze those practices in their own right. Starting from a reconstruction of the notion of informality I argue that the distinction formal/informal is the key for understanding how world society may look increasingly homogeneous while maintain and reproducing diversity. The necessity to make global expectations and the corresponding formal structures palatable for local audiences results in a Janus-faced implementation of modern principles and institutions: with a view to global observers on the one hand, and with a view to local expectations on the other. The chapter therefore argues that world society is characterized by increasingly homogenous formal structures as much as by persisting differences.

1. Introduction

A cursory glance at recent contributions to the globalization debate yields a slightly confusing set of assessments of the global condition: Some observers perceive an emerging “global modernity” (Dirlik 2007; Schmidt 2007, Schmidt 2012) whereas others see “multiple modernities” (Delanty 2004; Eisenstadt 2000). In the same vein, some embrace the concept of “world culture” (Lechner and Boli 2005) while others emphasize the salience of “local cultures” (Giulianotti and Robertson 2009: Ch. 2). And when someone regards the world as “flat” (Friedman 2005), others describe it as “spiky” (Florida 2005) or “bumpy” instead (Christopherson, Garretsen and Martin 2008). Before resorting to mediating concepts such as “hybridization” or “glocalization” it is worth noting that more often than not, both sides can muster enough evidence to claim empirical plausibility. This situation is reminiscent of Herbert Simon’s review of normative principles of administration, which, like proverbs, always seemed to occur in pairs: “For almost every principle one can find an equally plausible and acceptable contradictory principle” (Simon 1946: 53). If we do not want to be stuck with “proverbs of globalization” we have to develop theories that are able to make sense of the seemingly contradictory features of contemporary globalization and to discriminate more precisely between the homogenizing and the differentiating aspects.

In this chapter I aim to show how neo-institutionalism and systems theory can contribute to such an endeavor. Both approaches adopt a concept of “world society,” which according to some critics amounts to an inherent bias against the analysis of differentiation and variety (Schwinn 2012). Yet to proceed from the assumption of a “world society” does not mean to disregard differences.¹ Such a perspective in fact directs attention to global social relations and interdependencies, in which inequality and difference play at least as important a role as equality and uniformity. Modern organizations and nation-states in particular can look very similar at first glance, but a more detailed analysis brings several differences to light. This is a reformulation of the neo-institutional thesis that “decoupling” is a prominent feature of the adaptation to global structures: The isomorphism of *formal* structures is decoupled from *informal* practices. But what are these informal practices and what kind of logic do they follow? The world polity approach does not say much about the sources of decoupled and diverging practices other than that they often result from local exigencies, particularly a lack of resources.

To complement the detailed picture of the global diffusion of modern formal structures provided by world polity research, this chapter elaborates the concept of informality as the “other” side of the globalization of formal structures. I begin with a short discussion of different notions of “informality” (2.). The distinction between formal and informal structures has so far privileged one of the two sides. Neo-institutional theory and research have emphasized the decoupling of formal structures and actual practices from the very beginning, but in analyzing global developments they primarily focused on the former. Empirical research and sociological interpretation of informality as a sort of “backstage” of world society remained pale by comparison (3.). This is all the more astonishing considering that the history of the distinction formal/informal traces back to the early sociology of organizations. The systems-theoretical analysis of informal organizational structures argues that these structures do not exist independently from formal structures. They cannot be understood in the sense of society and its “group structures” imposing themselves onto the organization. Informal structures rather emerge out of contacts among members that are not amenable to formalization and are thus side-effects of formalization (4.). The sociology of organizations, however, assumes that the formal order is dominant in the case of conflict, which does not always hold true for conditions

¹ In contrast to the less clear outlines of the term as it is used in globalization literature (Spybey 1996), it is applied here in the sense of systems theory (Luhmann 1975, Luhmann 1997: 145ff.; Stichweh 2000), and partly in the sense of sociological neo-institutionalism, although the latter strongly concentrates on political and cultural aspects and therefore uses the terms world society, world culture, and world polity rather indiscriminately (Meyer 1987; Meyer et al. 1997; Boli and Thomas 1999). For an overview see Wobbe (2000).

in non-Western regions. The balance between formal and informal structures as well as the scope of informal structures therefore becomes a fruitful point of departure for comparisons (5.). In contrast to regular informality that is “contained” within specific social systems, there also are institutionalized forms of “unbounded” informality, which cuts across the boundaries of social systems such as organizations. The question why formal structures are maintained and staged even in the face of institutionalized informality finally leads to the distinction of global and local publics that underpin formal and universalistic or informal and particularistic orientations (6.).

2. Conceptions of informality

The usage of “informality” is often informal itself. The word is applied to fields of activity that are not governed by strict or written rules but also to behavior that consciously downplays, ignores or mocks etiquette.² The meaning usually depends on what precisely constitutes the “formal” dimension against which the “informal” one is pitted. While the primary point of reference in sociology is the formal organization, there are other areas in which the distinction is applied. If we grant that the meaning of informality varies with the context (or, in other words, with the systemic reference) we may move towards a clearer understanding of the term by distinguishing between them. We have just mentioned one of them: the formal organization.

The various usages of the term in the literature are related to at least two further levels of social reality: face-to-face interaction and society (Luhmann 1982, Luhmann 1995b). Each of those three types of social systems derives from a specific boundary principle: face-to-face interactions are based on physical co-presence, organizations on membership, and society, as the encompassing social system, on communication (which distinguishes it from a non-social environment). While face-to-face interactions are usually short-lived episodes and not internally differentiated, organizations and societies may exist for a long time and develop forms of internal differentiation into subsystems such as “departments” or “divisions” and “social fields” or “functional subsystems,” respectively.

The concept of informality has different connotations depending on whether interactions, organizations or societies are concerned. In face-to-face interaction, informality is conceived of as a style of communication that emphasizes sociability, permissiveness,

² This formulation is compatible with the dictionary definition: “1: marked by the absence of formality or ceremony <an informal meeting>; 2: characteristic of or appropriate to ordinary, casual, or familiar use <informal clothes>” (Merriam-Webster online)

frankness and a general atmosphere of “being at ease.” It contrasts with a less expressive, rule-driven and reserved, i.e. “formal” style. The two styles may be appropriate in different situations, e.g. the informal style during a party conversation vs. the formal style during a job interview. They might also be sequentially ordered if an initially formal relationship turns into an informal one, e.g. if colleagues become friends based on a history of acquaintanceship. And finally, there could be a more general shift in the style of interaction, an “informalization” of manners as described by Wouters (2007), who builds on Norbert Elias’ (2000 [1939]) theory of the civilizing process and argues that the 20th century has seen a decline in discipline and self-control in favor of more expressive and permissive styles of communication. The attributes of informality in interaction mentioned by Wouters and others are variations on the theme of “persons” vs. “roles:” Are interactions governed by occupational or status roles that restrict the expression of personal sentiments, or do they allow or even demand the “presentation of self,” which includes distancing oneself from role expectations (Goffman 1990 [1956], Goffman 1961)? The more “informal” an interaction is, the more “personal” it appears to be. Yet the emphasis on permissiveness does not mean that no rules apply at all; rather, in informal interaction the normative expectation holds that one should act in a “natural” manner, i.e. that the presence of others should not too obviously alter one’s own behavior (Luhmann 1995b: 429).

At first glance, informality in organizations looks like a special case of such a style of interaction. Any organization provides a setting for interactions through an elaborate framework of roles based on formal expectations: Organizational roles explicitly define who can decide about what, who is superior to whom and who has to consult with whom in joint decision-making processes (Luhmann 2000; March and Simon 1958). The interaction between members of the organizations is formal inasmuch as it is an interaction between persons-in-roles, be it in a hierarchical or in a collegial manner. Yet organizations also have informal rules that are less explicit and often limited to particular groups or departments. They may concern issues that are beyond the scope of formal expectations such as dress codes or greeting habits; but they may also run against the formal rules and role expectations, for instance if informal rules pressure workers to restrict their output lest they outdo their colleagues, as in the famous Hawthorne studies (Roethlisberger, Dickson and Wright 1939). The distinction formal/informal serves as a schema for defining the situation since one might have both formal and informal relations with the same person. However, the informal rules of organization do not just define another possible “style” of interaction but always have significance for the formal side as well, be it as

compensation to make life in a formal organization more bearable or as a counterstructure that subverts the purposes of the organization.

There is yet another different understanding involved if people speak about “informal” sectors of society, for instance the informal economy or informal politics.³ The label “informal” is based on the contrast with a formal sector which is regulated by laws and regulations but also by organizational hierarchies and responsibilities. Informal in this sense usually means *deviant*, i.e. to violate, evade or ignore laws and regulations. Although the legal system therefore is the most prominent example of a “formal institution” in society, other subsystems of society may have their own formal rules, for instance in the form of procedures and programs that define “proper” conduct within their domain. In contrast to the officially proclaimed and decided formal institutions, the “informal institutions” are based on “unwritten rules” that are spread and controlled “outside the officially sanctioned communication channels” (Helmke and Levitsky 2004: 727; see also Lauth 2000). They solve problems of trust and coordination and thereby “complement” formal institutions or even “substitute” them if those are ineffective.⁴ However, informal institutions in society – like those in organizations – can also contradict the formal ones, in the form of either “accommodation” or outright “competition” between the two. The deviation from, or disregard for, the formal rules can go so far as to make informal practices illegal, for instance informal employment avoiding taxation and social security payments. In other cases they might be just illegitimate because they do not contradict the letter but the spirit of the law, for instance informal “contracts” between politicians and campaign funders. Obviously informal rules have particular significance in places where formal rules and their enforcement are weak. It then appears as if activities were actually structured by informal rules, relegating the formal ones to being empty promises and hollow phrases. Since informal practices may endanger the credibility of formal rules, they remain clandestine and evade public observation and statistical representation (Werron 2010). It requires trust, often based on personal knowledge, to apply and accept informal rules. Usually one must therefore assume that most people “play by the book” and stick to the formal rules.

These rather different manifestations of informality share some features: First, informality is *derived from formalization*; it is a reaction to, and often an avoidance of, formal

³ See De Soto (1989), Portes et al. (1989) and Portes (1994) for the informal economy; on informal politics see Cheng and Womack (1996), Dittmer et al. (2000), Helmke and Levitsky (2006), Lauth and Liebert (1999) and Meyer (2006).

⁴ Economic institutional theory similarly argues that formal and informal rules *together* form the constraints for social action (North 1990: 36).

rules and their rigidities. It grows, as Lomnitz (1988: 43) puts it, “in the interstices of the formal system.” Second, there is a *bias towards personal or at least localized orientations*: informality in interaction focuses on persons rather than on role or status; informal structures in organizations are not part of the formal membership role; and informal practices in societal subsystems depend on personal trust and are often only applicable in more or less clearly circumscribed areas of mutual familiarity. Third, informality *provides less clear-cut guidelines for behavior*: Formal rules can be explicitly stated and are therefore easier to insist upon – in making but also in rejecting demands; for they clearly specify expectations and thereby shift the “burden of proof” that a demand is legitimate from the one being confronted with it to the one making it (Parsons and Shils 1951: 87).⁵ Informal rules in contrast are notoriously diffuse so that it might be unclear what others expect and, at least as importantly, which of their expectations one can reject as illegitimate.

Among those three notions of informality, the concept of informal structures in organizations provides the clearest blueprint. Organizational structure makes the opposite – “formality” in the form of formalized expectations – clearly discernible. In what follows, I will focus on the roles of informality in society and in organizations, keeping in mind that informality in both cases is also bound up with – although not limited to – face-to-face interactions. After a brief glance at the way in which comparative studies have discovered and theorized the phenomenon of decoupling as a feature of organizations in specific social environments, we will return to elaborating the concept of informal organizational structures.

3. Front stages and backstages of world society

It is common knowledge that formal rules sometimes are not good guidance. They might not provide an answer to the question of how to act correctly in a given situation. We learn as much simply by participating in road traffic: The question of who should pass first on a narrow bridge may be regulated or not; and if not, there are other, informal rules to go by, e.g. to let the car driving uphill go first. More troubling is the possibility that formal standards do not correlate with actual behavior (Raiser 1997): If you have the right of way in Germany, for instance, it may be fairly safe to cross an intersection expecting that the other road users will know and heed this rule. In other countries, however, it would be dangerous to blindly rely on the formal

⁵ In contrast to the stress on “written” vs. “unwritten rules” mentioned above, Luhmann (1964: 44) points out that formal rules are put in writing *because* the “burden of proof” dictates that someone who expects something from someone else needs something to rely on. That formal rules are often written down is a symptom of this social constellation rather than a fundamental characteristic.

rules: “in certain Latin American cities (and, indeed, other cities in the developing world), you have to be nuts (or a very naïve foreigner) to drive according to the formal rules of transit” (O'Donnell 2006: 285). For instance, it is not advised to stop at a red light at night because robberies of waiting car drivers are common – and therefore the driver at the green light should not rely on others to stop either. To know what others expect and to adjust one's expectations accordingly, one has to take into account not only the formal rules but also the informal institutions. If both sets of rules are acknowledged it is also important to know when to rely on which of them. For instance, motorcyclists in Thailand in their majority blithely ignore the law that requires them to wear a helmet; a recent survey estimated that only 43 percent comply with the law (Bangkok Post 2013). Although traffic police usually turns a blind eye, a motorcyclist might be fined or run into trouble with insurance companies in case of an accident. The formal rules are still “there,” but do not mean much for everyday activities.

Despite such variations in the shape of informal rules, traffic regulations as well as major institutions exhibit a striking worldwide homogeneity. There is right-hand traffic in some and left-hand traffic in other countries; there are more industrialized countries and less industrialized ones. But everywhere there are traffic regulations issued by governments with relatively similar sets of ministries as well as profit-oriented companies with balance sheets, and schools based on elaborate curricula. Yet we also encounter similarly loose couplings between formal and informal rules in those areas. A closer look reveals that the actual levels of performance vary greatly. Sometimes the relationship between aspiration and reality or, to put it differently, between display and delivery resembles the department store in a former socialist country in which, according to a then popular joke, a customer asks for help: “Don't you have socks here?” “No, sorry,” replies the sales assistant, “the second floor is where socks are unavailable. Here we don't have shoes.” In much the same way, “products” advertised to the own population and on the world stage by the authorities in peripheral regions – such as human rights or adequate school education – are often unavailable.

Neo-institutionalism refers to this gap between presentation and performance as “*decoupling*” of the public image, which ostensibly caters to common “myths,” from actual practices (Meyer and Rowan 1977). Decoupling occurs because formal structure is primarily geared towards the organization's legitimation vis-à-vis its audience. In view of contradictory expectations from their different stakeholder groups, organizations inevitably have to distinguish between the levels of *talk* and *action*; the effective pursuit of ends requires a certain degree of “hypocrisy” (Brunsson 1989) that caters to the demands of a universally appealing

presentation while acting otherwise. That also holds true for states inasmuch as they are confronted with expectations and attributions that they are not always able to meet (Krasner 1999). Yet if they wish to participate in the global political arena they have to comply with the standards of modern statehood or, if that is impossible, at least to pledge allegiance to them. As a result, we can observe manifestations of normative, sometimes enforced “isomorphism” among states (Meyer et al. 1997: 154f.; Meyer 2000: 243f.).

The decoupling of symbolism and actual practice is particularly obvious in the case of government agencies striving to be “modern.” A look at government reports, websites and other forms of self-description provide ample evidence of how nation-states project an appropriate self-image on the front stage of the global public sphere. That might explain why - despite the theoretical significance granted to decoupling - neo-institutional theory has cultivated a distinct preference for the front stage (Hasse and Krücken 1999: 38). Research concentrates on quantitative time series data, which are, ipso facto, officially produced data. Recent studies have also addressed the question of decoupling and examined if and why the gap between aspiration and reality can be closed (Hafner-Burton and Tsutsui 2005; Hafner-Burton, Tsutsui and Meyer 2008). Yet from a theoretical perspective, the other side of formal structures has not received much attention. The high aspirations of formal structure are supposed to be grounded in (and therefore explained by) the tenets of “world culture” (Meyer, Boli and Thomas 1994; Meyer et al. 1997). There is no such framework for informal practices that would allow to not only see idealizations and “actual practices” in *disjunction* but rather a *distinction* with two interrelated sides.

An interesting attempt towards analyzing both sides was made by early comparative studies of public administration in developing countries. Guided by the premises of modernization theory, they more or less stumbled upon the phenomenon of decoupling and its consequences for public administration. A study of the reform in Brazilian bureaucracy for instance notes a large “gap between norms and realities” (Graham 1968: 159ff.); and administration in Thailand stands out for its “formalism,” quoting modern norms without acting on them (Riggs 1966).⁶ We recognize the familiar pattern of decoupling: The presentations do not correspond to reality and decision-making has little to do with the official rules. Nevertheless considerable importance is attached to the presentation of these rules. A lengthy project may for instance clear the chaos from a long-prevailing mismanagement of records– only to find out in the end

⁶ For more studies, see the anthologies by Heady/Stokes (Heady and Stokes 1962) and Siffin (Siffin 1972 [1957]).

that no one ever reads the written reports anyway. Riggs (1964) traces this back to the special situation of administration in “transition societies.” These can neither be classified as “traditional” nor as “modern” because they combine *both* functionally specific *and* functionally diffuse structures. They are “prismatic societies,” in which the social environment of administration is not only highly heterogeneous but regularly lacks institutionalization of the appropriate expectations, for instance the acceptance of universalistic decision-making and of the separation of office and incumbent or role and person. Public administrations therefore regularly fails in performing even routine tasks, while it remains to other institutions, for instance to family or patron-client relationships, to solve typical administrative problems (Riggs 1964: 34).⁷

The insights gained by comparative studies of administrative behavior suggest an interactionist interpretation of the divergence of formal rules and actual performance: Instead of pitting symbolic discourse against “actual behavior,” the distinction between formal and informal structures corresponds with the difference of “front stage” and “backstage” regions (Goffman 1990 [1956]): On the front stage participants project an appropriate and socially approved self-image; actions on the backstage are often inconsistent with that image and hence have to be concealed and protected from outside observers. Goffman’s distinction of front and back regions is a general model of role behavior. Its central parameters are the extent to which backstage actions dent the public self-image and the separation of audiences. There is of course a lot of rather innocuous backstage action, e.g. musicians tuning their instruments (despite the odd wrong tune) before their show or bureaucrats chatting about the minister’s new cloths over lunch; but, to cite Goffman’s example, waiters mocking the diners in the kitchen but also politicians complaining about the stupidity of voters must count on their remarks not being overheard by the audience. It therefore depends on the separation of front and back regions to what extent incongruous backstage behavior is possible. The more differentiated the participants of the two regions and the better the communicative “walls” between them are, the more degrees of freedom for decoupling exist between them.

Yet who is the audience for whom the formal structures of public administration are performed? The audience usually comprises superiors or other principals as well as the clients but most importantly, Riggs and others suggest, they are foreign experts who are supposed to

⁷ Similar problems arise when development projects attempt to give a voice to amorphous interest groups instead of copying a foreign organizational model (Kühl 1998).

approve the “modernity” of administrative functions. This role of outside observers is due to the significance of public administration for ideas about modern statehood: The “role” of a modern nation-state is not only defined by its membership in international organizations such as the United Nations and the World Bank (Finnemore 1996). It requires establishing international contact opportunities in various departments and at different working levels. To have a political apparatus and leadership is not enough. In order to meet the expectations on the international political stage, a differentiated public administration is necessary. Ministries and protocols are therefore not only, in some cases not even primarily established with regard to the own population, but with regard to the peer group of other nation-states.

The significance of global audiences explains why the gap between front stage and backstage, between elaborated formalism and often underwhelming actual performance is especially pronounced in the developing world. The idealization of formal structure has to be stretched because it not only bridges the divide between the organization’s activities and the expectations of its social environment but also triangulates between the organization, local audiences’ expectations and global expectations. The difference between local and global expectations in particular implies further contradictions because those two sets of expectations are not necessarily compatible. The global audience might be strictly against any form of “corruption” whereas the local audience regards it as a legitimate course of action. The presentation of a front stage that glosses over such difference requires a thoroughly sophisticated communicative performance that, according to Goffman (1990 [1956]) and Perrow (1961), infringes on the pursuit of organizational goals by diverting resources from instrumental to expressive functions.

Thus understood, the decoupling argument highlights the role of formal structures for purposes of external display. Rather than a mere reflection of institutionalized norms and values, the formal structure is also a product of communicative staging. That staging is more demanding if multiple front stages, for instance local and global ones, are involved. “Formalism” is the consequence of heightened attention to questions of presentation in a complex environment with contradictory yet equally legitimate expectations. But how are the activities behind the formalist screen affected by such a constellation? What is the other,

informal side of formal structures? The following section discusses the distinction between formal/informal from the perspective of organizational sociology.⁸

4. Organizations and the formalization of expectations

Inasmuch as the decoupling argument refers to organizations (for instance government agencies, industrial corporations, schools), it also reflects the strengths and weaknesses of the concept of informal structures in organizational sociology.⁹ While its major strength lies in highlighting the complex social reality of formal organizations, its weakness lies in suggesting that informal relations are somehow more “societal” than formal ones: The formal structure of the organization is then conceived as an addition to already existing informal interpersonal relationships. From this perspective, informal relations in the formal organization, for instance patronage networks and factions, are a reflection of the social environment (including any particularisms) within the organization.

However, systems theory argues that the distinction formal/informal emerges only with the organization. The “informal order” is a consequence of formalization and the distinction between formal and informal is internal to the organization. It should not be confused with the distinction between organization and society. Organizations are “formal” because they are based on formalized expectations, i.e. expectations that are communicated as the conditions of membership in an organization (Luhmann 1964: Ch. 2). They are therefore the baseline of the membership role and set out basic parameters of organizational behavior such as hierarchical positions, office duties and signing authorities.

Formalized expectations are in principle known by everyone; at least it is always sensible to assume that others know the formal structure of an organization. That enables the formal organization to treat the various motives and interests of its members as if they were homogenous. From the point of view of the formal organization, deviation and resistance is only to be expected from specific individuals, but not from all members. Agreement with formal structures, in contrast, must be expected from everyone since it is a requirement of joining the organization in the first place. No one can object to formal rules without calling his or her membership – and therefore one’s own previous decision – into question (Luhmann 1964: 37;

⁸ In the following I draw on and elaborate an earlier attempt to distinguish between “contained” and “wild” notions of informality based upon organizational sociology and the comparative analysis of informal institutions (Holzer 2006)

⁹ For a more detailed account on the discovery of the “informal organization” see Barnard (1938), Roethlisberger et al. (1939) and Blau (1955).

cf. also Kühl 2013: 94ff.). It is thus necessary to subscribe to a “fictional consensus” and to assume that any member agrees with the formal rules. Hence: “Anyone who deviates must reckon to be out on a limb. He does not stand a chance of forming a tolerated minority with others” (Luhmann 1964: 69). Compliance with the formal rules is a safe guideline for action, particularly when it comes to conflicts, because it can count on the support of other members of the organization.

Yet wherever formalization turns certain expectations into a condition for membership and thus puts them up for decision, complementary but not necessarily concordant, *informal* structures emerge. Any contact between members may also be structured by informal expectations, i.e. expectations which are shared and institutionalized among members but not necessarily among all members and not as a condition of membership in the organization. Informal expectation structures pertain to elementary behavior such as greetings but they also make up for problems created by formalization, for instance by being focused on personal identities rather than on roles. The distinction formal/informal is an important device in organizations to distinguish between person-focused and role-focused expectations and situations: On the basis of formal expectations there are certain actions I have to expect qua role; on the basis of informal expectations I may expect a different set of actions based on personal acquaintance.

The formal expectation structure of organizations is tailored to the publicly endorsed purpose of the organization and therefore mainly serves the organization to adapt to the expectations of non-members. It is not such a good guideline for describing the expectations *within* the organization. Those intraorganizational social relationships are at least as much guided by informal structures (Luhmann 1964: 268ff.). The “decoupling” of both sets of expectations to some extent is a result of these different audiences. Informal rules evolve for such situations that are not completely covered by formalization, for instance the subtleties of interaction between people who are present in a situation. In this case, informality cannot entirely disregard the formal roles of those involved, even when dealing with “everyday” situations and actions that also exist outside the organization, for instance gratitude, tactfulness, and bantering. Informal expectations may notably address the competences and resources conferred by formalization, for instance in the issue of favors. Although a favor cannot be formally expected and is therefore not an enforceable right, informal expectations will map out those situations when it is possible to expect a favor – and when one has to expect that someone else expects one. This particularly includes the favor that a formal rule is not applied, which is

a major aspect of informal order: it determines when to rely on formal expectations (and to have them on one's side in conflicts) – and when it is called for to ignore them.

Informal expectations relate to the formal order by dint of normally existing between people who know each other only or at least primarily as members of the organization (Kieserling 1999: 341). It is therefore not very likely that the informal order is exclusively or chiefly aligned with requirements that are entirely unrelated to the organization. Even instances of violating formal expectations may often represent “useful illegality” (Luhmann 1964: 304ff.). They are useful because occasional violations of or selective disregard for formal rules allows more flexibility by diverging from overly rigid rules and gradually adjusting to a changed environment. Respect for formal order can nevertheless be presupposed and is reflected in the fact that the tension between formal idealization and actual processes is concealed from the audience of the non-members by means of complaisant interpretations, formalistic adherence to organizational fictions, and a “conspiracy of silence” (ibid.: 281).¹⁰

This characterization highlights the function of informality in maintaining the formal structure. In this respect, it corresponds to the original phrasing of the thesis of loosely coupled formal structure and everyday life in the organization (Meyer and Rowan 1977). Systems theory differs in that it conceives of informality as an independent set of expectations rather than a residual category of “actual day-to-day work activities” (ibid.: 341). Informal structures are necessary inasmuch as formalizations only extend to a small part of the communication between members of an organization. So chances are that informal structures are more instructive and relevant for the majority of actions than formal structures. Owing to membership links, formal expectations can, however, be insisted upon, while to disappoint informal expectations will “merely” entail informal sanctions.

At this point we can sum up the arguments of organizational sociology: Organizational rules, which are officially communicated and perhaps even set out in writing, are not always a good indicator of actual behavior. Acknowledging the significance of informal practices, the conventional theory of organizations still subordinates them to the formal order. That is

¹⁰ As Bensman/Gerver (1963) point out in their classic study of an aircraft plant, even the serious violation of a formal norm can be part of the standard set of informal expectations. They studied the procedures in aircraft assembly and found out that parts of aircraft wings were being retrofitted using a screw tap, although this was strictly against factory policy. The formal order called for absolutely prohibiting this potentially devastating practice. It was nevertheless a common practice due to being rooted in informal expectations regulating the use of the forbidden tool. These expectations were conveyed by informal communication, for instance during the training of new employees. By no means were the informal expectations latent in the sense that people would not communicate about them or not be aware of them. The informal expectations simply could not be fed into the official system, even though they contributed to smoother production operations.

plausible enough insofar as informal rules do not apply between random persons, but rather primarily between members of the organization. However, there may be situations in which neither the prerogative of the formal order nor the containment of informality within the organization can be taken for granted. The following sections discuss the corresponding conceptual adjustments and implications for comparative research.

5. From informal institutions to institutionalized informality

The above mentioned theory of formal and informal structures is predicated on two assumptions that we need to call into question for the purpose of empirical application and comparison: First, both neo-institutionalism and systems theory take it for granted that formal structure is institutionalized as a baseline of legitimacy for members as well as for non-members. The “regular” organization can rely on the fact that both members and external observers accept the formal order and regard deviations – which do happen – as such. To reiterate: Acceptance does not imply that everything follows the blueprint of formal structure. It rather means that only the formal order can count on a “fictional consensus,” i.e. formality is an institution. That consensus, according to the second assumption, is supported by the social environment. Neo-institutionalism and systems theory argue against rationalist models of organizational structure that elements of formal structure and organizational goals in particular are selected so as to convince society of the legitimacy and usefulness of the organization (Luhmann 1964: 108ff.; Meyer and Rowan 1977: 343ff.).

Yet both within and outside the organization we may also encounter the situation that hardly anyone believes in the formal order but rather expects deviation and illegality (no matter whether one likes or deplores it). Rather than the *formal* order, the *informal* order is then institutionalized through a “fictional consensus.” If we map out the institutional space created by assumptions about the dominance of formal vs. informal rules in the social system on the one hand and in its environment on the other, we get a typology of organizations in specific environments and the corresponding forms of informality (Table 1):

	Inside the organization preference is given to ...	formal structures	informal structures
In society preference is given to ...			
formal structures		Regular organization: <i>contained informality</i>	Potemkin organization: <i>conspiratorial informality</i>
informal structures		Rigid organization: <i>corrupt informality</i>	Booby organization: <i>unbounded informality</i>

Table 1: Types of organization and corresponding forms of informality (in italics)

- (1) Organizational sociology draws our attention to the “regular” organization in which informality is harmless or even useful. That is because informality is “*contained*” by the institutionalized expectation of members as well as non-members that formal structure prevails if push comes to shove.¹¹ Informality is held in check not only by the fictional consensus within the organization but also by complementary expectations in the social environment. Society is characterized by institutionalized trust in a kind of Weberian “legal-rational authority” (Weber 1978: 217–226): the formality of rules secures their legitimacy.
- (2) A first modification of this rather “Western” or “Northern” model must allow the possibility that despite successful institutionalization of the formal order *within* the organization, it is not taken for granted in the social *environment*. The organization may be confronted with an incongruent environment that expects the adherence to informal rules despite the organization’s insistence on formality. The organization thus appears as a “rigid” organization (or as “bureaucracy” in common parlance) that is constantly irritated by the fact that its formal structure is not taken at face value by outsiders. Clients, business partners or even the own employees appear to be “*corrupt*” but that does not compromise the consensus within the organization that formality rules. International organizations that

¹¹ The literature on comparative institutions is used to reckon with the weakness or even failure of formal institutions; for instance, Helmke and Levitsky (2004) and Lu (2000) distinguish between effective and ineffective formal institutions or, more concretely, bureaucracies and thereby arrive at similar typologies. However, our point of reference is not the “effectiveness” of formal order in actually directing activities but rather the question which kind of order is institutionalized, i.e. assumed to be valid among participants.

project their “bureaucratic universalism” into a non-receptive social environment, e.g. in developing countries, are a case in point (Barnett and Finnemore 1999: 721). Generally speaking, one could also say: “Northern” organizations in “Southern” social environments.

- (3) Another set of phenomena comes into view if we grant that the institutionalization of formal rules may also fail within the organization. Members then cannot assume, as mentioned above, that deviators will be isolated if they reject formal expectations. To the contrary, the informal order may compete with the formal structure so that one has to assume that only compliance with informal rules secures the support of others. This may go so far that not the deviators must expect to remain alone, but rather those who comply, down to the letter, with the formal order. For outside observers who – in contrast to the members of the organization – take the formal rules seriously, some kind of Potemkin village of formality is erected and maintained (Riggs 1966: 89): The familiar doors (i.e. bureaucratic routines and roles) are only mockups painted onto the walls – a façade of competences and decision-making capabilities without corresponding capacities. There may be operational doors in the immediate vicinity, but their control buttons are well hidden. To work *with* or to work *in* such an administration (and other organizations) requires knowing about the (un-)availability of formal rules and about the actual, informally structured and therefore “hidden” distribution of competences.

The formal structure of such a “Potemkin organization” is mere decorum and sticking to the official expectations will at best serve to make a fool of oneself. Rottenburg (2009) provides a case in point: A local water supplier in East Africa that is unable to locate its clients for invoicing. When checking customer lists for a development cooperation project (that was premised on the reliability of formal structure), it turned out that such endeavors were invariably sabotaged by the lack of house numbers in the city. The repeated attempt to create and institutionalize new lists based on own research failed because no one trusted the lists: “Someone who needs information and looks through the existing records for the answer demonstrates nothing but his or her own naïveté” (Rottenburg 2009: 136). We find examples of such organizations not only in the field of public administration in developing countries but also among non-governmental organizations that are set up as “bluff organizations” to tap on financial aid resources (Groffebert 1995). In order to keep up appearances, a major function of the informal order in this case is to organize a “*conspiracy of silence*” (Luhmann 1964: 281) to protect the Potemkin façade against unauthorized inspection and discovery.

- (4) Finally, if the organizational and the external expectations match but do so by agreeing on the prevalence of informal structures, the result is an “institutionalized informality” that extends beyond system boundaries. In this case of an “*unbounded*” informality, the separation of formal role commitments and informal personal obligations is not accepted as legitimate. Instead, there is a widespread belief that informal expectations must be upheld. An essential limitation of “contained” informality then ceases to apply, namely that informality is ruined by non-members entering the scene. Nigerian officials, for instance, who insist that every contact be based on direct or mediated acquaintanceship, can apparently count on support from both within and outside the organization (Eames 1994). Then informality becomes an *institution*, i.e. a self-validating and therefore accurate expectation of general agreement – but in this case the consensus concerns the neglect of formal rules. It is assumed that no one will comply with the rules anyway. Anyone holding a formal position *must* reckon that his or her personal network will expect anything but strict adherence to role duties. Appealing to formal role expectations will only meet with a lack of understanding.¹² However, the informal order provides some certainty regarding which kind of favors can be expected and also which cannot. For instance, as people move higher up in status in the formal hierarchy, others will respect that they can only be bothered in important matters and not ask for “trivial favors” (Lomnitz 1988: 45).

How can a situation emerge that informal instead of formal expectations are institutionalized, in the organization as well as in society at large? It depends on how participants establish “what is the case.”¹³ Is there more trust in formal or in informal rules? Apparently, the institutionalized trust in formal order varies considerably and may even be almost completely absent. According to surveys in Russia during the 1990s, for instance, 56 percent of the population thought that they had to pay taxes only if they wished to do so and that it was alternatively possible to hand out money directly to the official in charge (Rose 1998: 10f.). Such beliefs do not bode well for the enforceability of formal rules and tend to reverse the “regular” asymmetry between formal and informal rules in favor of the latter. The prerogative of the formal side in the case of conflict reaches its limits when conflict, and thus the need to assert formal expectations, becomes ubiquitous because countervailing informal norms are widely institutionalized.

¹² Cf. with regard to West Africa: „Any man rising to a place of importance in politics will be surrounded by relatives and friends looking confidently to him for patronage; the tradition of centuries leaves them in no doubt that he will provide for them, and that if jobs do not exist they will be created“ (Wraith and Simpkins 1963: 34).

¹³ This is Garfinkel's (1963) departure point for developing his "cognitive revolution" of the problem of order, which we follow here.

Institutionalized informality that straddles the difference of organization and society keeps the organization from differentiating itself from society and is therefore an impediment to organizational autonomy. The organization is, as it were, perfectly “embedded” because societal and organizational norms are in line. Yet due to that embeddedness in society, which effectively means: entanglement in reciprocal exchange networks, the resources of the organization that are controlled by formal roles are up for grabs. The organization therefore becomes a “booty organization”¹⁴ whose formal structure merely provides the positions to distribute favors in exchange networks. Numerous studies have identified such particularistic exchange networks in different world regions, for instance *compadrazgo* in Chile (Lomnitz 1971), *clientelismo* in Southern Italy’s Mezzogiorno (Eisenstadt and Roniger 1984: 64ff.; Luhmann 1995a), *blat* in Russia (Ledeneva 1998), *guanxi* in China (Yang 1994), and ethnic clientelistic networks in Africa (Lemarchand 1988).

The possibility of a reversed asymmetrical relationship between formal and informal structures shifts our focus from “informal institutions” to “institutionalized informality.” Instead of conceiving institutions as “rules and procedures [...] that structure social interaction by constraining and enabling actors’ behavior” (Helmke and Levitsky 2004: 727), we have already employed a slightly different concept of *institutionalization* that builds on “fictional consensus.” Such a phenomenological or “cognitive” (rather than behaviorist) concept of institutions enables us to distinguish between the mere *promulgation* of norms and rules and their *institutionalization*. For it is one thing to merely know a norm exists and quite another to ascertain whether anyone will follow it. The actions of others are uncertain. Institutions, in this view, serve to “successfully overestimate” the actual degree of consensus to the point that one must assume that everyone (else) agrees (Luhmann 1970). Institutions are “myths” whose effects “inhere, not in the fact that individuals believe them, but in the fact that they ‘know’ everyone else does, and thus that ‘for all practical purposes’ the myths are true” (Meyer 1977: 75).¹⁵

The crucial point is that institutions are based on assumptions about the expectations of others. It makes a difference whether institutionalization occurs with regard to *specific* others, for instance the members of a small group, or with regard to *generalized* third parties, who are

¹⁴ The term “booty” is used in pertinent comparative research that focuses on the economic effects of clientelism and informal exchange networks, for instance in China (Lu 2000) and in the Philippines (Hutchcroft 1998).

¹⁵ Meyer’s concept of institutional “myths” and the concept of “institutionalization” in Luhmann’s earlier work, which he did not follow up on later, are very similar in this regard. For sometimes broader understandings of the concept in neo-institutionalism more generally, see Jepperson (1991; 2001).

and remain absent and whose consensus therefore cannot be verified immediately.¹⁶ While conspiratorial informality is a case of delimited institutionalization within the organization, unbounded informality involves expectations about how other members of society or an anonymous public evaluate informal behavior. In a final step, we need to take a closer look at this “external” perspective on informality.

6. Functional differentiation and (in)formal institutions

To understand how institutionalized expectations about informality evolve (and how they may also decline) we need to recall the distinction between different levels of informality that we introduced in the beginning. We have so far primarily addressed issues of organizational informality but, with the concept of an institutionalized and unbounded informality, we have already introduced the level of society as well. The above mentioned notions of informal sectors in the political, economic and other subsystems obviously refer to situations in which not just particular *organizations* accord priority to informality but in which entire *social fields* are heavily shaped by informal expectations. That comes as no surprise in places where reciprocal exchange networks institutionalize informality beyond any particular organization. Informality then spans all three domains: It pervades organizations but also surrounds them; it takes the form of practices of exchanging “favors” that involve face-to-face interaction and require trust in persons rather than in roles; and it adapts to societal differentiation by taking on different forms in the economy, politics, health care, education and so on.¹⁷

The informal side only makes sense with regard to a formal one. That also holds for societal subsystems. Although in some countries a good deal of economic and political activities is informal, there always is some kind of formal sector, too. It would be difficult to even recognize politics or economic transactions without at least some kind of “formal” structure. For instance, there are characteristic *role patterns*, such as politicians, entrepreneurs or teachers, which are not only organizational positions but also integral parts of – and thus defined by – particular subsystems. Such roles, together with procedural *norms and programs* that govern their relationships, are the backbone of formalism along the lines of societal differentiation: They define expectations in a specific domain without too much regard for individual behavior or regional particularities. Although the formal roles and norms rarely are good guides to actual

¹⁶ Cf. Werron’s notion of “universalized third parties” (this volume).

¹⁷ See footnote 3 above.

behavior, they make it possible to assume a certain consensus about what people can expect from particular roles and their incumbents. In that sense, there is some degree of formal structure *within* subsystems of society.

Yet universally accepted rules also play an important role in the relationships *between* societal subsystems. Luhmann uses the notion of “structural couplings” to refer to institutions which entangle two subsystems in a form of mutual dependency, e.g. the economy and politics (taxation), the economy and the law (contracts) or education and the economy (certificates) (Luhmann 1992, Luhmann 1997: 776–789). It is interesting to note that those institutions are classic examples of state regulation: The state, understood in terms of both its political and legal dimensions, is the pivot of those and other institutions of structural coupling, including the constitution as the form of structural coupling between politics and the law. The actual content of such institutions varies from state to state, but the expectation that the state should regulate taxation, educational certificates and contract law in some way or another is more or less universal. We may thus amend our understanding of formal structures by including *structural couplings among differentiated subsystems*. Such formal structures are a common feature of state governance, but they are also often substituted by informal institutions: For instance, partners in an economic transaction may rely on informal relationships based on personal trust rather than on contracts to ensure that their claims can be enforced. Usually some kind of “institutionalized informality” underpins the widespread substitution of structural coupling by informal institutions: In Lima’s garment production district “Gamarra,” for instance, the workers and entrepreneurs do not place much trust in certificates and contracts but rely on informal “patron-client” relationships instead (Burch 2013). Yet the institutionalization of informality remains local in the sense that it prevails among acquaintances but does not extend to the economy as a whole, particularly not to the world economy.

The limits of informal institutions point to the fact that formal structures in societal subsystems are often consequences of *linkages to global networks*. If an entrepreneur in the informal economy prefers to make business based on trust relationships, s/he might still have to resort to a formal contract when s/he has to ship goods abroad. And global exchanges then lead to pressures to comply with universalistic expectations and standards. Generally speaking, functional differentiation gives rise to social environments that are both global and universalistic. They are populated by “rationalized Others” (Meyer 1996, Meyer 2010) – such as economic advisors, professional associations and NGOs – who serve as global reference groups. They constitute audiences whose idealized and formalistic expectations have to be

catered to. In contrast to those “global” audiences, “local” ones may be characterized by particularistic orientations and informal commitments. The “global” and the “local” thus are not distinct geographical places; rather, they refer to different kinds of expectations, first and foremost regarding the balance of universalism and particularism. In a similar vein, Ekeh (1975) distinguishes between the “primordial” and the “civic” public in Africa. He argues that due to the impact of colonization there are two radically diverging conceptions of citizenship: As part of the primordial public the individual feels obligated to an extended family or an ethnic group, whereas the civic public is perceived as an opportunity “to make booty” to benefit primordial ties. However, *both* publics coexist within the same national framework. This example shows that the differentiation of “global” and “local” (or “civic” and “primordial”) audiences is primarily one of the orientation and legitimation of action, regardless of geographical location. The differentiation and hence simultaneity of global and local audiences explains why we have to expect both an increasing homogeneity of formal structures and a considerable diversity of informal orders at the same time and place: Inasmuch as global connections and the appraisal by rationalized Others cannot be entirely ignored, there are incentives to provide at least some kind of formal decorum. Hence Potemkin façades of formality are widespread despite locally or regionally institutionalized informality.

7. Conclusion

In concentrating on formal structures of world society, i.e. on the nomenclature of political systems, on legal statutes and on organizational forms, comparative research indisputably focuses on an important dimension. International comparative inquiry often has nothing to lean on but officially available data. This basis, after all, provides a sufficient range of variation to make comparisons seem reasonable but also one-sided. Neo-institutionalism treats informality as a residual category to serve as a catch-basin for any activities that cannot be attributed to formal structures.¹⁸ Whereas neo-institutionalism has so far been reluctant to illuminate the global backstage of informality, systems theory offers a more nuanced concept of informal structures. The systems-theoretical concept of informality elaborates on the classic organizational theory that relates informal structures to the organizational system, i.e. to the

¹⁸ Accordingly, empirical observations of informal institutions note “gaps between ideals and practical reality” and “between policy and practice” (cf. Meyer 1999)), but there is little or no analysis of the social structures that give rise to and perpetuate those practices.

communication among members. According to this approach, informal structures react in the first place to the gaps and discontents of formal order.

In this chapter, I have argued that in addition to such “contained” forms of informality we also need to consider “unbounded” manifestations, which consolidate across the boundaries of subsystems and organizations. The presumed dominance of formal structures is indeed a variable. It cannot be taken for granted that informal structures are subordinate to formal structures simply due to the fact that membership successfully institutionalizes formalized expectations. To the contrary, informality often turns out to be more sustainably institutionalized and therefore socially more influential. If informality is institutionalized within the organization as well as without, i.e. if it goes beyond the circle of colleagues or other insiders in performance roles, it can become the dominant mode of orientation in a circumscribed social environment. To become isolated then is no longer a threat to those who insist on informal expectations, but rather to those who rely on the formal order. Based on the institutionalized legitimacy of informal orientations, the formal structure becomes the “booty” of reciprocal exchange networks that substitute formal role commitments by their own informal order.

Yet the findings of world polity research show that formal structures, even if only as Potemkin villages, exist and do not show a great deal of variation. This is the result of a differentiation of audiences into “global” and “local” publics that require a corresponding differentiation of orientations. While the local public may appreciate regard for particularistic interests, the global public disdains such practices as backward and corrupt. The central point for comparative inquiry is that a differentiation of formal and informal allows simultaneously boosting both homogeneity and heterogeneity. It only requires different publics be sufficiently separated so that adequate performances for either audience can be rendered. World society hence is Janus-faced: one face presents formal structures that are enacted by and staged for global observers; the other is characterized by informal structures of great cultural and semantic variety that revolve around reciprocal social relationships that modify and sometimes exploit the formal structure.

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