Abstract

The paper analyses business networks in three different cultural settings: West-European, Russian and Chinese. In the conceptual and comparative paper theoretical perspectives as well as practical business matters in the three settings are highlighted and analysed. The theory concerns culture and business networks and the role of transition in the case of Russia and China. In the end core elements of the different network types are presented and compared together with implications.

Introduction

Network theory has emerged over the last twenty years as new way of describing and understanding business and markets. A general definition of a network is a “set of connected exchange relationships” (Cook & Emerson 1978). In a business perspective the main activities in these relationships are buying and selling. Relationships, however, differ from other governance modes since these networks are often stable and both the buyer and the seller are active partners. Over time the buyer and seller adapt their operations and make investments towards each other. What has been said so far can hold concerning networks from a specific culture (Western business settings). We are inclined to strongly believe that business networks in different economies and cultures are constituted in their own manner because of underlying cultural differences.

The basic premise of this conceptual paper is to view how networks in business are constituted in different cultural surroundings. The business settings are taken from Western Europe, Russia and the People’s Republic of China (PRC). The West-European perspective relates to a mature market economy-situation. China and Russia are experiencing a turbulent change process due to economic and political turmoil as being economies in transition. Management studies concerning Russia have touched the issue of business networks quite sparsely (see however e.g. Johanson 1994, Salmi 1995, Törnroos & Nieminen (eds.) [forthcoming]). Concerning Chinese network studies the importance of ‘guanxi wang’ (relationship network) has long been acknowledged (cf. Ruan, 1993, Mayfair, 1994). Recently business research has also paid attention to the importance of guanxi in business markets (e.g. Björkman and Kock, 1995, Davis et. al., 1995, Xin and Pearce, 1996, Ambler et. al., 1999). Few studies, however, have been made in order to understand the cultural foundation of business networks in different parts of the world. Therefore the comparative element has been absent, to our knowledge, in most studies related to business networks. One attempt has been made to compare Chinese relationships with relationship forming in
Ghana (Bonsu and Polsa, 1998) but the theoretical base in this particular study was a dyadic relationship marketing approach in contrast with the network approach which is used in this study. In order to conduct international business in practice and develop the network approach from an international perspective it is crucial to move from one country studies to cross-cultural comparative research concerning business networks and networking.

Research objectives and limitations

The paper addresses the following objectives related to the comparative problem-complex outlined above.

- What are the characteristics of business culture in relation to business networks and business relationships?
- How do networks work in different cultures/countries (Western Europe, Russia and PRC)?
- Who are the main actors and how do they act?
- What is the role of trust and commitment and how is trust created?
- What are the main differences between business networks as they are understood and developed within the IMP tradition in these three contextual settings?

A quite general view of “context” and a country-based general cultural perspective is taken. Regional and local variations in cultures are therefore to a large extent neglected. The paper is conceptual and theoretical to its nature. The theoretical perspective relates to business networks and culture. The empirical part is based on experienced cultural aspects from the three regional entities as well as from secondary sources.

Outline of the paper

The first section of the paper is theoretical dealing with network theory and business culture. A network view of business markets and marketing is taken. In the next section general observations are made through presentations of main constituents of business networks in different contexts (West European, Russian and Chinese). This section is based on personal experiences from both Russia and China. One of the co-authors have conducted business research in Russia for many years. This holds also in the case of the PRC, which is well known by one of the co-authors. In the next section a comparative analysis of the culturally based notions and observations are put together. In the final section a critical examination of the findings are made together with conclusions and implications for research and practice.

The network approach and contextuality

It is argued here that business networks are constituted in specific ways in different cultural and regional/national contexts. This firstly implies that there exists a cultural differentiation of networks, meaning that networks have specific configurations and are guided by their own rules, norms, processes and structures in different contexts. Second, these networks are specific in different places and “spaces”, meaning that they are geographically differentiated. There normally also exist other specific aspects.
in how ‘networks work’ and how they are constituted. Differences exist e.g. by industry, through competition, the type of market, technology, distribution systems, logistics and so forth. Here we mainly delimit the study to two specific perspectives, regional differentiation and cultural contexts in China and Russia especially and contrasts these to the Western practices where the network model has been developed. A third dimension here is the transition process taking place at present in both China and Russia creating a specific phase for network development and networking (World Development Report 1996). This is the temporally specific condition affecting networks and business. The time and timing of changing the economic and social conditions ruling the society and business throughout the communist era takes specific forms and is guided by different political and social as well as economic practices. These processes have taken different turns in the case of Russia than China which still is governed by the Communist Party.

Culture and networks

Culture is a vast and elusive concept which is embedded to different levels of human encounters (individual, group, ethnographic, societal). Culture is here defined as the human relationships, communications and behaviours of distinct groups forming a set of common rules and behavioural and communication patterns (cp. Kluckhohn 1952, Hall 1959,1976, Hofstede 1984). In business life culture is treated also in different ways. Organisational culture deals with management systems, relationships and hierarchies within the firm and communication within an organisation (Adler 1997, Rhonen 1986, Schein 1985). In this sense a cultural perspective for understanding networks stems from this line of inquiry. Culture in marketing is dealing with the relationship between the firm and its dominant ethnic culture and its values and codes of conduct in marketing. Studies within the field deal with how to segment, plan, market and develop business relationships with culturally distinct categories of markets and segments (Terpstra & David 1985, Usunier 1997). Market communication forms a major component within the study in this field. In business to-business-marketing seen as networks the importance lies often in direct face-to-face communication. Communication between the actors takes mainly part between business professionals doing business, but also in many cases, with technical expertise. In different cultures the communication differs in this sense. Communication in Russia differs from the communication process in China, for example. Understanding communication in its context gives us also keys to understand how networks are developed and constituted.

Business culture is a general term denoting how business is conducted within a specific culture. This issue deals with business negotiations and business relationships as well as with the ‘rules of the game’. A distinct business culture can, to our notion, also be seen as the culturally specific ways of forming relationships and networks which form the way how things in business are developed following societal rules and customs in general. In saying this we are well aware of the complexity and difference existing in both Russia as well as PRC. Specific regions and different markets have their own ‘flavour’ of the rules which guide business behaviour, customs, negotiation styles, used concepts, competitive behaviour etc. In Western Europe cultural characteristics are manifold and problematic to generalise as well. The Scandinavians, Germans and the Swiss are characterised as being highly low-context (LC), that is
having a strict linear time-orientation, guided to a large extent by written rules and straight communication in business matters, for example. Nevertheless, in this paper we are generalising the Western culture as being individualistic, short-term oriented and low-context.

In Russia the transition process is breaking up the old command economy. Past loadedness of the tsarist regime and the Soviet Union still prevail in the bureaucracy and in the society. In cultural terms Russia is difficult to position e.g. in "contextual terms" as high or low context. In dealing with this issue Russians could be positioned somewhere in between the extremes (e.g. The Japanese high context (HC) and the Swiss LC) (ep. Usunier 1997 p. 227). The process of restructuring Eastern Europe is creating positioning problems in this sense. Russia is still in the late nineties in a problematic pre-transitory phase having both politically as well as economically a hard time to overcome. The transition is therefore presently in a state of flux and this also affects the cultural basis. However, the strong legacy of "Homo Sovieticus" still prevails. The authoritarian system-orientation is living beside grey and black sectors of the economy. In being a more collectivistic society than many West European countries Russians seem also to be very business oriented. The role of connections "à la Russe" has also been mentioned (see the section about Russia below for details). Similar to other Western cultures, Russians are quite short-term oriented.

In China the general cultural characteristics are related to high-contextuality, familism and collectivism (Hall 1976, Hofstede 1984). According to Halls’ terms China is a high-context society with a polychronic and long-term time orientation. In accordance with Trompenaars (1994) China is a “belonging society”, as opposed to the individualistic “achieving societies” of the West notably the U.S. Networks in business and how they are formed and developed are a part of these general cultural characteristics of the Chinese society. In table 1 the summary of the cultural differences in the three environments, Western, Russian and Chinese, is shown.

It can clearly be seen from the table that three cultural areas chosen for the research and characterised by the above dimensions distinguish themselves from each other considerably. Thus, it can be assumed that also business networks emerge and function differently in the three cultural environments having such in difference in their cultural characteristics. The cultural standing in relation to networks and relationships in business can therefore be studied from the three culturally diverse regional entities. In saying this one has to keep in mind the following: Firstly, the theoretical business network approach is based on mainly Western, especially West European business-to-business encounters and contexts. Secondly, the territorial/geographical separations in space and time explain some of the differences. Third, culture is created in solving mutual problems along distinctive groups of people in relation to different tasks. This, in turn, means that the comparative element and differences has to take these points into account.

\[1\] Past loadedness is a term denoting burdens from earlier times on present phenomena in society (Grusvich 1964)
<table>
<thead>
<tr>
<th>Dimension</th>
<th>Western</th>
<th>Russian</th>
<th>Chinese</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collectivism (vs. individualism)</td>
<td>low</td>
<td>medium</td>
<td>high</td>
</tr>
<tr>
<td>Long-term orientation</td>
<td>medium</td>
<td>low</td>
<td>high</td>
</tr>
<tr>
<td>High context communication (vs. low context comm.)</td>
<td>low</td>
<td>medium</td>
<td>high</td>
</tr>
<tr>
<td>Power distance</td>
<td>low</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Masculinity vs. Femininity</td>
<td>low</td>
<td>low</td>
<td>high</td>
</tr>
<tr>
<td>Personalization vs. Roles</td>
<td>low</td>
<td>medium</td>
<td>high</td>
</tr>
<tr>
<td>External vs. Internal control</td>
<td>low</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Uncertainty avoidance</td>
<td>low</td>
<td>high</td>
<td>medium (?)</td>
</tr>
</tbody>
</table>

Table 1. Western, Russian and Chinese cultural characteristics (adapted partially from Worm 1997 and also based on observations by the authors.)

Business networks in the West

In industrial marketing management business networks have in Western research its own distinct meaning. The basic premise for business networks is here derived from the findings of the Industrial Marketing and Purchasing Group (Håkansson 1982, Turnbull & Valla 1986, Ford 1990, Håkansson & Snehota 1995). The existence of business networks within this tradition is based on the notion of combining heterogeneous resources in order to interlink activities and actors (Håkansson & Snehota 1995). Business networks have gone beyond the dual buyer-seller conceptualisation of marketing into looking at industrial and international marketing from different relational interconnected actors’ perspective. The actors are defined as business people, departments in companies and firms acting and interacting with each other. The actors create relational bonds with each other through commitment and trust over time through their business and social exchange. This is a typical “achieving” activity in the LC cultural surrounding where the objective is efficiency (in economic terms) gaining competitive advantages over rivals, and developing e.g. distribution and logistics systems and organisational independence but also having access to complementary and vital resources without taking ownership risks.

Networks are created through investments in relationships by pro-active actors. The network is developed incrementally through the bonding mechanism in the form of activities and activity links between the actors constituting a core business network. Resource ties, activity links and social bonds are features which have been developed in order to show how business networks are interconnected in the Western mode (Håkansson & Snehota 1995). Business network theory is based on relational concepts in a specific cultural setting i.e. in a low context cultural spheres. Networks are developing in the Western context through fairly clear structures and more “visible” parts. Also social assets and skills are important in this case. Their role have been even more pronounced than before in this type of business theory.

Another important aspect of the network approach is the notion of network embeddedness. One aspect related to the notion of embeddedness is the cultural...
aspect. A network is embedded into a specific cultural setting or context. This context, in turn, gives the ethics and values and the ways of doing business and developing networks of relationships. In Western Europe relationships in business markets are usually fairly long and stable. This has been demonstrated already a long time ago. If business connections have established themselves in these types of markets they tend to prevail (Håkansson 1982, Webster 1984, Ford 1990). The network approach is extending the dyadic understanding and the interconnectedness issue. Also recent vertical disintegration processes are strengthening the relational bonding and networking processes in Western Europe. The EU-based integration policies further facilitate and speed-up the networks formed. Managerial strategies also enhance the process as a way to handle business (Key account management, Strategic Alliances, Core-Competence thinking, Regional network and traded as well as untraded interdependencies etc). All these are mainly based on the Western business philosophy – both U.S. and European based.

Business Networks in Russia

In the planned economy the firms were viewed as having a product function, and aimed to meet quantitative production goals (Salmi 1996). The success of the firm was determined in terms of physical production and plan fulfilment (Dubini 1990), which meant that management tended to focus purely on internal matters. For instance, Luthans et.al. (1993) showed that US managers devoted twice as much time to external networking activities compared to Russian managers. The firms' one-sided dependence on the authorities and arbitrariness and lack of possibilities to influence the substance of their relationships meant that mutual trust and commitment did not evolve. Instead the relationships in the official economy were ruled by an extensive bureaucratic control (Peng and Heath 1996). Consequently, the planned economy did not stimulate firms to develop co-operative relationships with their customers and suppliers, since the official economy did not provide the incentives (Mattsson 1993).

During the planned economy, the relationships were characterised by the fact that other organisations developed and controlled the substance of the relationship. The firms' task was only to realise these organisations' intentions and commands. Payment, transportation, products and to some extent production were controlled by the plan authorities. Investments, both considering the direct financial resources and which type of investment, like machines and equipment, were in the hands of different committees and ministries. The aspects discussed above affected the information exchange and contacts. It is true, that the firms had the possibility to communicate and exchange information as they liked, but the reason to do that was extremely limited since they could not influence the substance in the relationship. Furthermore, both the firms' eventual desire to continue the relationship was of minor importance, since the plan authority fully decided whether the relationship should survive or not. The consequence was that the firms did not try to inform their counterparts about their capabilities and needs. Neither were they forced to do that by the system. Thus, the firms did not have any direct experience of each other and therefore, there were no bases or need for trust. Consequently, trust as a phenomenon was of subordinate importance in the relationship. All this did not mean that trust was completely absent in the plan economy, but it meant that trust between two firms in a relationship was of
minor importance for how the relationship developed. In the system there were no conditions for emergence of trust between firms.

However, it did not mean that co-operative relationships were completely absent. Berliner (1957) observed that procurement was a constant problem in the planned economy, which not seldom forced firms to turn to the black economy in order to acquire needed goods in an illegal way. Puffer and McCarthy (1995) found that nepotism, gifts and bribes were important components in traditional Russian business behaviour and an important dimension of the unofficial distribution system was the pure personal influence on different business situations. This is in Russia called blat and the aim is to obtain some kind of favour, very often illegal, but not necessarily. Blat existed in all kinds of activities of the firm, but mainly in areas related to exchange with other firms Berliner (1952). Closely related to the concept of blat was the function or occupation tolkach, which means ‘pusher’, which was a person sent out to push for the firm's interest, especially concerning supply, resource allocated and production goals. His targets were other firms, plan authorities and ministries and sometimes even the Communist Party. Berliner (1952) noticed that if a large number of people engaged in blat these unofficial situations, they must have expected others to prepare to do the same or at least accept that other did it. The stakes were high and thus, Berliner means that the situation must have been characterised by a high degree of mutuality and trust.

These two types of economies are illustrated in figure 1, where square 1 stands for the official and planned economy. This system build on authority and norms and had very much in common with a hierarchical firm. The degree of trust was low and there were no incentives to learn more about thing than how to fulfil as easy as possible. This economy was faceless, besides the contacts with the plan authorities. However, in square 2 the black economy is to be found. It is characterised by a high degree of trust and mutual understanding between the actors and the main reason for that was the uncertainty, since doing business in the black market is connected with high risk. The main reason for this type of economy to exist is the poor distribution system and the constant shortage. Consequently, the core activity in the square 2 is buying and selling.

![Figure 1. Different types of economies](image-url)
and rather seldom to produce and sell. It is a long-term orientated network but with a low degree of technological innovations and few investments in tangible resources. Both these types of economies are structured like relationships and networks which left minor space for pure market transaction. This results in a highly structured and stable network. A crucial question in Russia today is how these types of network are transformed during the transformation process since the early 1990s.

<table>
<thead>
<tr>
<th>Governance model</th>
<th>Planned economy</th>
<th>Transition economy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A hierarchical plan based on commandos</td>
<td>Differentiation of governance mode, appearance of both market transaction and business relationship</td>
</tr>
<tr>
<td>Ownership</td>
<td>Government ownership</td>
<td>Private and collective ownership</td>
</tr>
<tr>
<td>Structure</td>
<td>The few new firms are founded through political decision, few firms leave the economy</td>
<td>Abolishment of entry barriers for new firms and appearance of a bankruptcy act</td>
</tr>
<tr>
<td>Institutions</td>
<td>No property-right or business legislation</td>
<td>Appearance of property-based legal framework, business legislation and capital markets</td>
</tr>
<tr>
<td>Foreign trade</td>
<td>Governmental monopoly</td>
<td>Liberalisation of foreign trade, growing trade through foreign direct investment and direct export and import</td>
</tr>
<tr>
<td>Structural character</td>
<td>Stability and stagnation</td>
<td>Uncertainty and instability</td>
</tr>
<tr>
<td>Time frame</td>
<td>from 1918 until about 1990</td>
<td>since around 1991</td>
</tr>
</tbody>
</table>

Table 1. Characteristics of the planned vs. transition economy in Russia

The transition from a planned economy to a market economy is supposed to have a number of dimensions all of them affecting the business environment (Peng and Heath 1996). The main event of the transition was, of course, the dismantling of the plan and the gradual liberalisation of prices, which occurred at the beginning of 1992 and replaced the hierarchical plans. Another aspect of the transition was the beginning of a more extensive privatisation of all state-owned firms. The main reason for privatisation is the assumption that it leads to greater efficiency and a reconstruction of the traditional firm. But, as Filatotchev et.al. (1996) note the Russian privatisation was a transfer of ownership but it did not in itself reconstruct the market. Other aspects of the transition are the abolishment of entry barriers for new firms, appearance of a property-based legal framework and business legislation and that foreign trade has gradually been liberalised. A huge number of small firms have been established and more foreign firms are today operating in the Russian market.

This transition from a planned economy to a market economy is perceived by managers mainly as a market problem. There exist, however, diverging views about what happens with the existing relationships and networks during the transition. Huber and Wögötter (1998) argue that two types of networks evolve: survival and entrepreneurial networks. The survival network springs from the official economy and firms strive for power and control in order to achieve rent, while the entrepreneurial networks' actors are either individuals from the former state-owned enterprises or new entrants. Salmi and Mattsson (1998), on the other hand, argue that the official and the unofficial networks are undergoing an overlapping process. Peng and Heath (1996)
argue that the management and the market institutions are so weak that the only way to realise agreements and contracts is to do business with those whom one trusts and they are to be found in the former black economy. Hendley (1997) found that firms tend to rely more on personal relationships than on legal system to solve disputes and conflicts, while Hendley et.al. (1997) found that professional, ethnic, family, social and political relationships bear little importance for former state-owned enterprises. The only relationships that had any bearing was either a common educational background or were the result of old official relationships.

Buck et.al. (1998) observed that relationships with customers and suppliers have become the firms' main constraints. The relationships with suppliers have either turned good or very good or bad or very bad (Filatotchev et.al. 1996), while the relationships with the customer had just became worse. This is probably due to a sharp decrease in demand (Buck et.al. 1998). This is confirmed by Gurkov (1996), who said that collapsing business relationships and partners that had let the firms down were typical for the transition while mutual array: lack of means to purchase raw materials and semi-finished goods, high debts to banks and suppliers, were perceived as the most disturbing factors. The financial recession often forced a lot of firms to begin to do barter trade. Golden et.al. (1994) claimed that increased environmental uncertainty like demand changes product obsolescence, growing competition and appearance of new products and technologies was a result of the transition, which would cause the firms to more extensively put the buyer in focus and begin to develop new products, conduct market research and try to satisfy the customer. Shama (1992) did also find that the most significant change was a higher level of competition.

Gurkov (1996) observed that the firms strained to change their products in order to satisfy the customers and changed the distribution channels. Salmi (1996) argues that the new evolving relationships in the transition will very much build on the old ones. This is even the case for small enterprises that are often spin-offs from the big firms and the management will tend to utilise their old working place’s relationships. Still, it is obvious that most firms had not improved their relationships (Filatotchev et.al. 1996) and the conclusion is that relationships with customers and suppliers are more important today, but also that Russian managers have big problems to manage them, especially due to the deep financial crisis. The transition takes time and a “continuous process of incremental change is inevitable” (Filatotchev et.al. 1996).

**Business Networks in China**

The importance, practice and structure of Chinese relationships is not only a legacy of the former planned economy. Even if the importance of relationships have been emphasised during the centrally planned economy in the PRC similar relationship structures exist and have always existed in Chinese communities outside the PRC and before the establishment of the PRC. Thus, guanxi and importance of relationships have their origins deep in the Chinese culture. Therefore Chinese relationships cannot be observed only through business markets but they need to be viewed and studied in the wider social context. The established word for Chinese relationships is guanxi. Even if the word literally can be translated as relationships it is crucial to define the...
concept of guanxi since it includes dimensions normally lacking in Western view of relationships. Leung et al. (1993) define the concept of guanxi in the business context as follows:

"It necessitates very personal interactions with other people and always involves a reciprocal obligation. Guanxi is developed with ingenuity, creativity, supplemented by flexibility. It is cultivated through a person's network of connections." (Leung, et al., 1993, p.1)

First, guanxi refers not only to networking or one type of marketing strategy (Polsa, 1998). It is a deeper cultural concept that plays an important role in human relationships in China, and it can be recognised in every kind of human relationship from the purely social to business. Guanxi can be used in any situation to give and obtain favours and reach goals. Moreover, good guanxi in certain circumstances, such as the relations between two countries during the Second World War, can affect other areas, such as business connections. As Wei-Ping Wu states: "Good exchange within a guanxi network can be anything as long as it is of value to the parties concerned, be it legal or illegal, corruptive or non-corruptive" (Wu, 1994, p. 3). Hence, guanxi cannot be separated off to only limited areas of human behaviour. It is all-pervasive and affects all situations.

Second, guanxi involves obligation in a reciprocal way. If a person has received a favour, he knows that he is obliged to give one in return when requested to do so. Buying back favours or services may even mean personal sacrifice. This not only refers to favours between two persons, but obligation is extended to entire guanxi networks (Bond and Hwang, 1986). Figure 2 illustrates the boundaries of obligation in A’s guanxi network. Through B, A is obliged to give favours to and entitled to receive from C and his guanxi network, even if the networks of A and C do not overlap.

The third difference between guanxi and generally acknowledged relations in the West is its formation. Building up guanxi includes immediate trust through a common connection (i.e. friends, relatives, classmates). Thus, mutual trust in a guanxi relationship can be established through common connections immediately without any exchanges between the actors, and exchanges do not have to be institutionalised if a common latent connection exists in a relationship. In this sense, guanxi differs from the kind of business relationship Håkansson describes, since it may exist between two parties in a latent form without any business episode, or any other kind of social episode. It exists in a latent form within one’s own guanxi network, and in between the guanxi networks of members that have common members in overlapping networks (see figure 2). And when a latent guanxi becomes an active one trust is immediately achieved.

in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999
This may further be exemplified by looking at the contents of relationships. Häkansson and Snehota (1995) distinguish three different types of contents: resource ties, activity links, and actors' bonds (Häkansson and Snehota, 1995). According to this view, it is hard to define when and for what reason a business relationship starts. It may start with resources, activities or actors’ social bonds. Furthermore, in this view, resources may be seen as technological, material and know-how, and resources link two or more actors through mutual need. Guanxi is more than the above. Guanxi is not just something that describes the interaction between two actors, but it is a resource (cf. Bond and Hwang, 1986, pp. 223-226) comparable with technology, knowledge and others. For example, if we have a business relationship between A and B we can say that A and B have guanxi between each other. This guanxi is a similar kind of relationship to that described by network researchers. In addition, the guanxi which is relevant to A’s and B’s business relationship may also be B’s guanxi with other actors such as banks, families and transportation means (for example, network C in Figure 2). This guanxi is B’s social resource, similar to their financial or technological resources.

It is important to emphasise that guanxi is a social resource (Polsa, 1998). If you have guanxi, i.e. relationships, you can create business relationships that lead to business activities, efficiency in activities and the further strengthening of actor bonds. When guanxi is seen as a resource, it may exist before any business act or episode, and hence it may also be a social resource for a potential business relationship. This does not imply that activities or other resources could not initiate a business relationship in a Chinese context too. However, once a business relationship exists, guanxi is also seen as a business relationship between two actors, for example a retailer and a wholesaler, that needs to be cultivated for business to be conducted.

Fourth, it is crucial to distinguish bases of guanxi networks. The strength of the ties, or as expressed by network researchers the strength of the bonds, is dependent on the base of the guanxi network. The strongest bonds exist among the members of the core family and relatives (Bond and Hwang, 1986). These bonds are called expressive ties and they are held strong by emotions. In the other end of the strength degree is instrumental bonds that are established temporarily and anonymously (Bond and Hwang, 1986). The bonding feature is equity rule, i.e. partners that have established an instrumental tie give and get favours equally according to well-established mutual rules (Hwang, 1987). Base for such a relationship is nothing more than a common interest and mutual benefits of this particular relationship. Gradually instrumental bonds can move towards expressive ties and become mixed ties, i.e. over time purely...
instrumental contacts may involve more and more emotional aspects. This development is very similar to what is normally called relationship building in the Western business literature. For example, trust is gained over time instead of having immediate trust as explained above. In addition, commitment is strong in expressive relationships but weak among the actors with instrumental ties.

For a Westerner doing business in Chinese communities, may it be in mainland or in outside mainland communities, it is important to acknowledge that some of the businesses are established on the family and relative ties (see Kao, 1993; Redding, 1995; Cheng, 1997), i.e. base for a business relationship and a network of business relationships is strong emotional connections. For an outsider to enter such a business network it is not a question of building up a strong relationship since it is impossible to gain such a strong emotional ties as family members have. Rather it is a question of how to enter such business network. It is also important to realise that if one has succeeded in establishing a business relationship on instrumental or mixed level this relationship can always be demolished by competing relationships that are based on expressive ties. In such a situations not even mutual benefits or economic incentives can compensate the loyalty to the family members.

Since guanxi is a social concept deeply rooted in the society it is also very much influence by the societal changes and development. Taking the PRC as an example it is possible to demonstrated how guanxi has changed over time depending on the political and economic situation in China. Needless to say that the social and economic development that influence guanxi is different in other Chinese communities such as Hong Kong, Singapore, Taiwan and among Chinese minorities in Malaysia and Philippines. Table 2 describes the main trends in the mainland Chinese economic development. Before the liberation in 1949 the base for guanxi was a family and a clan. Expressive strong ties were used to build up businesses within the family connections and the boundaries of family networks could be extended by marriages between two clans. This kind of business networks based on family ties still exists in outside mainland China but Liberation changed the way business networks are functioning in the PRC. After the liberation China went through a process called “socialisation and class struggle” during which many strong clans lost their power and businesses around families were collectivised, i.e. become government owned businesses. During the centrally planned economy time (see Table 2) guanxi was not anymore needed to conduct business. Rather connections were indispensable when dealing with the government officials both in the local and national level. Since government directed the central plan and since this plan was implemented by government officials connections with them were crucial in achieving daily necessities.

Bases for the guanxi have also changed during the recent PRC history. The one-child-policy have further diminished the importance of families and clans as source of guanxi. Instead new bases for guanxi have been formed, for example a region of family origin (‘lao jia’) or former classmates both from a middle school or an university can serve as bases for guanxi.
<table>
<thead>
<tr>
<th>Governance model</th>
<th>Centrally planned economy</th>
<th>Planned commodity economy</th>
<th>Socialist market economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>State and collective ownership</td>
<td>State and collective ownership</td>
<td>State, private, collective and foreign ownership</td>
</tr>
<tr>
<td>Structure</td>
<td>The few new firms are founded through political decision, few firms leave the economy</td>
<td>New collectives are established as competition to government owned sector</td>
<td>Abolishment of entry barriers for new firms and appearance of a bankruptcy act</td>
</tr>
<tr>
<td>Institutions</td>
<td>No property-right or business legislation</td>
<td>Appearance of property-based legal framework, a business legislation and capital markets</td>
<td>Further developed property-based legal framework, a business legislation and capital markets</td>
</tr>
<tr>
<td>Foreign trade</td>
<td>Governmental monopoly</td>
<td>Liberalisation of foreign trade, growing trade through foreign direct investment and export and import via Ministry of Foreign Trade (MOFTEC) and Foreign Trade Corporations (FTC)</td>
<td>Increased liberalisation of foreign trade via an increased number of Foreign Trade Corporations (FTCs)</td>
</tr>
<tr>
<td>Structural character</td>
<td>Stability and stagnation</td>
<td>Uncertainty and stability</td>
<td>Increased uncertainty due to declining economy and Asian crises (since 1998)</td>
</tr>
<tr>
<td>Time frame</td>
<td>1953-78</td>
<td>1979-92</td>
<td>1993-</td>
</tr>
</tbody>
</table>

Table 2. Trends in the economic development in mainland China.
The socialist system has created new forms of social groups that can function as bases for guanxi. One of those kind of societies are ‘danweis’, i.e. work units. They are collective units around working places like factories, universities, state-owned companies etc. that provided everything from grocery stores to health care for the members of the danwei. Throughout the centrally planned economy and the planned commodity economy danweis formed strong bonds between the members of the work units. Nowadays when importance of danweis as source of daily necessities is collapsing because of reforms in state-owned companies, old guanxi among the danwei members can serve as source of guanxi. Some businesses have been established based on such connections. The other social network that can be a base network for businesses is membership of the communist party. This network is nationwide, thus powerful.

A comparative perspective on business networks in three cultural settings

Western European business networks are based mainly on business-related ties among business actors. They are mainly driven by profit seeking motives. In a cultural sense the business networks are created because of market-related and technological aspects.

Over time the notion of the existence and importance of interpersonal trust and commitment between businesspeople have been acknowledged. The network model in itself is more “social” than the many other models of marketing based on transactions and exchange metaphors.

<table>
<thead>
<tr>
<th>Business based networks in Western Europe/Scandinavia - Concepts</th>
<th>Core characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actors</td>
<td>Business managers, departments and firms</td>
</tr>
<tr>
<td>Activities</td>
<td>Business related interaction, marketing, financial, economic and technological activities</td>
</tr>
<tr>
<td>Resources</td>
<td>Financial, technological, “know-how”, image-related, marketing, competitive position</td>
</tr>
<tr>
<td>Basis for trust and commitment</td>
<td>Previous contacts, personal and organisational skills, working and profitable relationships, social bonds</td>
</tr>
</tbody>
</table>

Table 3. Networks in West European business contexts

Networks are very much structural and ‘visible’ compared to the other cultural settings highlighted below. Networks in Western Europe are also very much mutually goal-oriented. Competitive reasons are also to be found as an important variable in explaining the existence of business networks. The investment-concept in relation to network relationships can also be found in Western business network development.

In Russia the disintegration of the economy and the need for new economic systems and enterprises form a basic context where business networks come into being. Some


Page 14 of 19
firms which are successful reap huge profits due to many personalised contacts and the tightly structured relational landscape. Today, after the liberalisation began, the firms are short-term oriented and the strategy is to avoid dependence on others by all available means. The relationships with a key-person in specific firms or authorities are extremely important, while the willingness to adapt to others and/or to invest in specific relationships is low. Trust is still rather absent in the economy but when it exist the driving force is the high uncertainty.

<table>
<thead>
<tr>
<th>System based business networks in Russia</th>
<th>Core characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actors</td>
<td>Business managers, “Pushers”, Governmental organisations and politicians, the informal business actors</td>
</tr>
<tr>
<td>Activities</td>
<td>Pure business interaction, transaction orientation, need based activities</td>
</tr>
<tr>
<td>Resources</td>
<td>Contact resources, managerial resources, established business systems, relationships with key-persons with the authorities</td>
</tr>
<tr>
<td>Basis for trust and commitment</td>
<td>Personal contacts with all types of actors, financial recession, illegal operations, barter trade</td>
</tr>
</tbody>
</table>

Table 4. Networks in Russian business contexts

In China business networks are not necessarily based on purely business-related issues. Other social issues, such as family and common former contacts strongly influence business networks. Therefore ways and motives to work in business networks are not only profit seeking but, on the contrary, can be perceived as very irrational, unprofitable and inefficient.

On the other hand, if the business relationships are based on expressive ties among family members or other common former contacts, also business relationships become strong and reliable, but not necessarily more profitable. The role of guanxi wang is of crucial importance.

Conclusions and implications

The theoretical base for business networks and the developed models have been carried out mainly in Western Europe. This has meant that the network approach to marketing and the emerging relationship-marketing paradigm is a “Western construct”. The concepts used in the basic ARA-model can be found also in the two other compared cultural areas in the paper. Their content differ, however. In Russia

<table>
<thead>
<tr>
<th>Culturally based business networks in China</th>
<th>Core characteristics</th>
</tr>
</thead>
</table>

in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999
### Table 5. Characteristics of networks in Chinese business contexts

<table>
<thead>
<tr>
<th>Actors</th>
<th>Family and clan (stronger in overseas Chinese societies), former class mates and course mates, common home region, former and current work units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activities</td>
<td>All social activities but also financial, economic and technological activities, favouring in-group-members (in business activities)</td>
</tr>
<tr>
<td>Resources</td>
<td>Social, latent relationships, technological, &quot;know-how&quot;</td>
</tr>
<tr>
<td>Basis for trust and commitment</td>
<td>Common contacts, previous contacts, social bonds</td>
</tr>
</tbody>
</table>

The network needs specific management and investments. The short term perspective is on the other hand related to a very much person-based economy in business. In China the network is based on “belongingness” to a notably larger degree than in the West. Understanding the complexity of the collectivist relationships and on what logic’s they are formed and who is the key person(s) is important. The basis for trust differ also considerably across the three studied cultural environments.

For managers the understanding of the cultural roots and cultural logic’s underlying the different networks, the activities, resources and the underlying cultural patterns for contacts and relationship management are of crucial importance when developing business especially in new cultural areas in transition.

**References**


*in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999*


in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999


