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***Entrepreneurial Networking in China and Russia:  
Comparative Analysis and Implications for Western Executives***

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ENTREPRENEURIAL NETWORKING IN CHINA AND RUSSIA:  
COMPARATIVE ANALYSIS AND IMPLICATIONS FOR WESTERN EXECUTIVES

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**Abstract**

In this article, I compare personal networks of Chinese and Russian entrepreneurs in terms of network structure, relationships and resources accessed in networks. The Chinese data is composed of longitudinal phone interviews with 94 Internet entrepreneurs in Beijing, and the Russian data is comprised of longitudinal face-to-face interviews with 75 entrepreneurs in Moscow, Ekaterinburg and Petrozavodsk. Implications for Western executives are discussed.

**Key words:** *entrepreneurs, networks, China, Russia*

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## ENTREPRENEURIAL NETWORKING IN CHINA AND RUSSIA: COMPARATIVE ANALYSIS AND IMPLICATIONS FOR WESTERN EXECUTIVES

There is a growing recognition among scholars of the vital role entrepreneurs play in wealth creation in transition economies by skillfully navigating unstable political, economic and regulatory environments in those countries.<sup>1</sup> Entrepreneurs find that an effective strategy for success is to do business through personal networks of relationships because network members provide information, resources, social support, and help to find clients, suppliers and investors who are socially bound.<sup>2</sup>

In this article, I compare the way in which Chinese and Russian entrepreneurs build and maintain personal networks for entrepreneurial success and suggest practical implications for Western executives for establishing and maintaining ties with Chinese and Russian entrepreneurs. I will base my descriptions of entrepreneurs' networks on two interview data of Chinese and Russian entrepreneurs. The Chinese data is composed of longitudinal phone-interviews with 94 Internet entrepreneurs in Beijing in 2001 and 2002, and the Russian data is longitudinal face-to-face interviews with 75 entrepreneurs in three cities including Moscow in 1995 and 1999.

This article is structured as follows. The next section examines similarities and differences between China and Russia, and the Chinese and Russians. It is followed by the methods section where I describe the sample and data collection. After that I compare Chinese and Russian entrepreneurs in terms of network structure, relations and resources in networks. Finally, the section "implications for Western executives" describes suggestions for effective networking in China and Russia.

## **China versus Russia: Similarities and Differences**

The historical, institutional and economic similarities and contrasts between China and Russia, and cultural and social differences of the Chinese and Russians serve as macro environmental conditions that have profound influences on the way in which individual Russian and Chinese entrepreneurs build, maintain and expand their personal networks over time. I therefore discuss these issues as general background for comparative analysis of Chinese and Russian entrepreneurs' networking.

### China and Russia: Similarities

The People's Republic of China and the Russian Federation share common geographic, historical and institutional heritages. The two countries have long land borders, and the climate in Russian Siberia is similar to the climate in Western and Northern regions of China. Much of Eastern and Southern China resembles Southern Russia where mild climate and low land terrain dominates. Both China and Russia were under the Mongol rule for several centuries, and some historians conclude that one reason for contemporary authoritarianism in the two countries is the shared historical heritage of the Mongol dominance.<sup>3</sup> The main institutional similarity between two countries is the totalitarian political system. While this system lasted in the Soviet Union and Russia for 70 years, it still exists in China. Although there are important differences between the Russian workers' revolution in 1917 and the Chinese peasant uprising in 1949, the communist institutional structure-the core feature of which is the total dominance by the communist party in the political, economic and cultural lives of these societies-is by and large similar.

## China and Russia: Differences

Despite the heritage of communist revolutions, China and Russia currently have distinct political systems. Since the collapse of the Soviet Union in 1991, Russia painstakingly pursued the road of liberal democracy, and whatever deficiencies and setbacks of the Russian democratic experience, the country is a liberal democracy.<sup>4</sup> In contrast, the Chinese communist party has further consolidated its power by taking advantage of impressive economic performance in the last two decades.<sup>5</sup> The result is that the Russians enjoy relative political freedom and free speech but face unprecedented economic hardships, whereas the Chinese are experiencing rapid improvements in living standards in “exchange” for limited political freedom.

The Soviet and Chinese leadership had embraced strikingly different methods of economic reform in the early 1980s. Russia has chosen the so-called “Big-ban” or shock therapy approach, which introduced rapid economic liberalization and privatization of state enterprises on a large scale.<sup>6</sup> Although there is no consensus among economists in assessments of the Russian economic reforms, it should be noticed that the Gorbachev economic reforms and economic policies of the Russian government to date are widely regarded as a failure. This is in a sharp contrast to China, which rose to become the world’s 6<sup>th</sup> largest economy from a poor agricultural economy in only 20 years. The main success factor for the spectacular economic growth in China has been the path of the gradual economic reform, the essence of which is controlled liberalization and dualist sectoral approach.<sup>7</sup>

**Table 1. China versus Russia: Country Characteristics**

	<b>China</b>	<b>Russia</b>
Political system	Communist	Liberal democracy
Dominant religion	Confucianism, Buddhism	The Eastern Orthodox Christianity
Population (Millions, 2000)	1,261	146
Gross domestic product (Millions of dollars 2000)	1,079,954	251,092
Average annual GDP growth % 1990-2000	10,3	-4,8
Value added as % of GDP	Agriculture 16 Industry 49 Services 34	Agriculture 7 Industry 38 Services 56
Exports (Millions of dollars 2000)	249,212	105,200
Imports (Millions of dollars 2000)	225,097	44.200
High technology exports (% of manufactured exports 1999)	17	16
Foreign direct investment (Millions of dollars 1999)	38,753	3,309
Domestic credit provided by banking sector (% of GDP 2000)	132,7	23,9
External debt (present value % of GNI 1999)	14	72

Source: The World Bank, 2002. *Building Institutions for Markets, World Development Report*, Oxford University Press.

The Chinese and Russian governments have carried out different administrative restructuring policies, which have resulted in distinctive institutional environments. Following the core requirement of liberal democracy, Russia decentralized political power in the country and introduced a free election system. This policy shifted much of political power from the center- Moscow to regional and local governments, allowing local elites to “hijack” the newly found autonomy.<sup>8</sup> The Russian central government tried to control regions and provinces fiscally through a new taxation system but the policy resulted in tremendous institutional chaos. Russia thus carried out unsuccessful political decentralization and fiscal federalism.<sup>9</sup>

By contrast, the Chinese institutional reform is a success story: the Communist Party of China meticulously transferred power in areas of economy, education and culture to non-party bureaucracies and further consolidated its absolute dominance of political institutions, i.e., legislature, ministries, local governments, judiciary, media, security forces and military. While the political control over government and public organizations has strengthened for the last decade, fiscal reform and decentralization has enabled the Chinese economy to grow in double digits for two decades.<sup>10</sup> In this way, China remains a politically centralized but fiscally decentralized country.

#### The Chinese versus the Russians

As two peoples who occupy large parts of the Eurasian landmass, the Chinese and Russian people have distinct cultural, religious and cognitive traditions, which significantly influence their network building and maintaining behaviors.<sup>11</sup> While the Russians are Eastern Orthodox Christians, the Chinese are predominantly Confucian in their religious beliefs. At the end of the tenth century the Russians began to adopt the

Eastern form of Christianity and the Russian Orthodox Communion based in Moscow became the most influential and extensive church with the fall of Constantinople to the Turks in 1453.<sup>12</sup> Roughly two and a half thousand years ago, Confucius, the most influential Chinese thinker, created an internally consistent yet simple system of ideas that is called Confucianism.

While the core concept in Christianity is *agape*, which evolved from Israelite tradition, the cornerstone of Confucianism is the concept called *jen*. The meanings of *agape* and *jen* are similar in the sense that both refer to love. However, *agape* defines the relationship between Christians and their God and *jen* refers to the relationship between Confucians and their ideal, and between Confucians and their fellow human beings. Therefore, the fundamental difference between Christianity including the Orthodox Church and Confucianism is that the former is a theocentric religion with *agape* as divinity and the latter is a humanistic religion with *jen* as humanity.<sup>13</sup>

After the collapse of the Soviet regime that promoted atheistic ideology, the Orthodox Church has revived its activities and became an influential force in country's spiritual life.<sup>14</sup> In fact, roughly half of Russia's population regards itself as believers though less than 10 percent are regular churchgoers.<sup>15</sup> Even during the communist regime, the Russian culture has kept its Christian flavor and Russophile trends.<sup>16</sup> In contrast, the official ideology in China is Marxism, Leninism and Mao Zedong philosophy, which stifles religious freedom and forbids religious practices. There is, therefore, no reliable evidence of religiosity of the Chinese. Qualitative evidence, however, suggest that there is a certain nostalgia for Confucianism among Chinese

intelligentsia, emphasis of the humane spirit of Confucianism and resurgence of traditional beliefs and practices such as *fengshui* in China.<sup>17</sup>

Religions have profound influence on emotions and behaviors of peoples. Important types of moral emotions are shame defined as global negative evaluations of the self (i.e., Who I am?) and guilt defined as articulated condemnation of a specific behavior (i.e., What I did?).<sup>18</sup> Although shame and guilt are universal emotions, they are experienced differently by peoples whose religion, culture and customs are different. The Russians and the Chinese differ in experiencing shame and guilt. Because the Orthodox Christianity emphasizes the relationship between Christians and their God, guilt as “private” experience arising from self-generated pangs of conscience is likely to regulate moral behaviors of the Russians more than shame. On the contrary, shame as “public” emotion arising from public exposure and disapproval of some shortcoming or transgression is likely to regulate moral behaviors of the Chinese more than guilt since the relationship between fellow humans are the spiritual reference point in Confucianism.

Embedded in the Confucian philosophy, the national psyche of the Chinese sharply differs from the Russians’ mindset. Postulates such as the universe and man’s life are real, all forms of change are expressions of two forces, the *yin* and the *yang*, changes take place in the form of cycles or spirals rather than extremes are fundamental metaphysics of the Chinese thinking. The Chinese do not believe in supernatural forces and are inclined to think concretely rather than abstractly. Understanding is based on appreciation and liking rather than analysis and calculations.<sup>19</sup>

The Russians in contrast are keen abstract thinkers and transcendental considerations have great place in their psyche. The Russians have a tendency to alternate

between extreme positions and may occupy two or more mutually exclusive mental positions simultaneously. The Russians can be broad yet narrow, reckless yet cautious, tolerant yet censorious, freedom loving yet slavish, and in this way, they will be found in all directions at some time or other.<sup>20</sup> The Russians have no precise and concrete notions of time and space, and therefore, their mindset seems to be “shapeless” in terms of time and space.<sup>21</sup>

## **Methods**

### The Chinese sample and data

The Chinese data is composed of structured telephone interviews with 94 Internet entrepreneurs in July-August 2001, and follow-up interviews with 41 original respondents in August-September 2002. All interviews were conducted in Beijing. In 2001, we created a list of 410 Internet related firms (Internet service providers, Internet content providers, e-commerce, network technology, software) based in Beijing. We used the China Internet Network Information Center’s survey reports, web-sites of Sina.com and Sohu.com, China yellow pages, and the web-site of the Beijing Administration for Industry and Commerce as sample sources.

In all, we contacted 120 CEOs selecting every-third on the list, and 98 agreed to be interviewed. The positive response rate is 81 percent. Four respondents were unavailable for actual interviews. After one-year interval, we re-interviewed 41 respondents, and the remaining 53 firms were either non-existent or unreachable, or refused to be re-interviewed.<sup>22</sup> We used the Burt name-generation method to collect data on network structure, relations and resources. In addition, we asked questions about self-perceived social skills (*renji jiao wang*) and networking skills (*guanxixue*), and

performance indicators such as revenue, access to venture capital, and legitimacy building.

I carried out 10 in-depth, semi-structured interviews with CEOs of eNet China, Hi China web solutions, Chuangshi tengfei company, Hi China, Yabuy.com, Read online, Welan.com, and Beijing Hi-World software technology company from May 2001 to July 2002. Three experts who conduct research on Internet industry in China were interviewed in September-October 2002.

The Russian sample and data

I interviewed 75 Russian entrepreneurs in February-June 1995 and carried out follow-up interviews with 56 original respondents in March-May 1999. Pilot interviews with six Moscow entrepreneurs were conducted in August 1994. The sample includes firms in three Russian cities, i.e. Moscow, Ekaterinburg and Petrozavodsk, from four industries, i.e., banking, trade, manufacturing and the resource sector. It also covers large, medium and small firms, and new ventures versus privatized firms.

In 1995, I selected firms on the basis of stratified random sampling procedure in three cities. I used computerized databases of registered businesses of the Moscow City Committee of Statistics, Business Assistance Center of the Sverdlovsk Regional Administration in Ekaterinburg and the State Committee of Statistics of the Republic of Karelia in Petrozavodsk as sample populations. I created twelve lists of firms (four industries and three sizes) each of which contained twenty firm names. In 1995, I contacted 120 entrepreneurs selecting every second on the list and 82 agreed to be interviewed. The response rate was 68 percent. Seven respondents were discovered as ineligible in the field, so that the final sample consisted of 75 entrepreneurs and directors.

There were 50 new ventures and 25 privatized companies. After four years of first wave interviews, I re-interviewed 56 original respondents.<sup>23</sup> I used the position generation technique to collect data on network structure, relationships and resources of entrepreneurs.<sup>24</sup>

### **Chinese Entrepreneurs versus Russian Entrepreneurs**

#### *Chinese Guanxi and Russian Svyazi*

Social origins of Chinese and Russian entrepreneurs have both similarities and differences. The Chinese entrepreneurs predominantly came from four social classes: individual households (38 percent), cadres in party, state bureaucracy and enterprises (24 percent), peasantry (17 percent), and personnel in trade and services (11 percent).<sup>25</sup> In contrast, most Russian entrepreneurs were middle managers and engineers in enterprises (40 percent), professionals such as doctors, teachers and academics (25 percent), senior cadres in party, state bureaucracy and enterprises (20 percent), and others (15 percent).<sup>26</sup> Initial social structures (e.g. the vast majority of the Chinese population are rural peasants whereas Russia is a largely industrialized nation), divergent economic reform paths, and social mobility patterns caused by marketization of two economies may explain differences in social compositions of the Russian and Chinese entrepreneurial classes.

Informal social relationships were important resources for Chinese and Russian entrepreneurs ever since economic reforms were embarked. This is consistent with findings in advanced economies.<sup>27</sup> In the 1980s and 90s, private entrepreneurs in China were engaged in particularistic relationships with local governments (“wearing a red hat”), foreign firms (“wearing a foreign hat”), and other small firms (“wearing a small hat”) to gain access to production facilities, raw materials, and importantly, political

protection.<sup>28</sup> Similar evidence has been found in the Russian case: entrepreneurial networks comprised of many weak ties and resourceful contacts lead to higher revenue growth and profitability.<sup>29</sup>

The indigenous social phenomenon called *guanxi* (connections) is the Chinese version of social networks.<sup>30</sup> Although there is some debate about many nuances of *guanxi*, there is an agreement among scholars on its main meaning: *guanxi* is interpersonal relationships that facilitate social exchange. *Guanxi* has been interpreted as family relationships, utilitarian ties, and particularistic ties embedded in Confucian values.<sup>31</sup> Researchers found that *guanxi* relationships promote interpersonal trust, facilitate job mobility, and enhance firm performance.<sup>32</sup>

The Russian version of social networks is *svyazi* (connections).<sup>33</sup> A formal description of social networks in the Russian context is social *seti*.<sup>34</sup> The concept of *blat* has been used widely to describe informal relationships in the Soviet and Russian context.<sup>35</sup> Although it is accurate to employ the term *blat* to capture informal practices in the Soviet context, it may be imprecise to denote social networks as a generic phenomenon by *blat* for several reasons. The word *blat* originated from criminal slogans in late XIX century in St. Petersburg. The original as well as contemporary meaning of *blat* is criminal and criminal underground world.<sup>36</sup> The term therefore has an extreme negative connotation, and is used less frequently by the Russians today. Most Russians prefer a neutral word *svyazi* to refer to social networks.<sup>37</sup> *Svyazi* capital reduces uncertainties and risks in financial transactions, facilitates access to resources and loans, and enables Russian entrepreneurs to increase their sales and profits.<sup>38</sup>

**Table 2. Relative Differences between Chinese and Russian  
Entrepreneurs' Networks**

<b>Network features</b>	<b>Chinese networks</b>	<b>Russian networks</b>
Generic term	<i>guanxi</i>	<i>svyazi</i>
Size	Roughly same	Roughly same
Density	Higher	Lower
Structural holes	Fewer	More
Diversity	Less	Greater
Homophily	Greater	Less
Relational base	Important	Less important
Relational hierarchy	Based on role obligations	Based on power and status
Centrality	Skillful being central	Less skillful
Dyadic ties	Intense and multi-content	Less intense and more compartmentalized by segments
Triad ties	More effective and many control mechanisms	Less effective and fewer control mechanisms
Dynamics	More stable	Less stable
Strong ties	More	Fewer
Weak ties	Fewer	More
Interpersonal trust	Higher	Lower
Degree of personalization	Greater	Lower
Tie formation	Effective through a trusted intermediary	Direct approach is effective
Reciprocity	Higher	Lower
Rituals and symbols	Highly ritualistic	Less ritualistic
Government officials	Resource-rich	Resource-poor
Relations with police and security agencies	Less important	Important for protection from <i>mafia</i>
Dark side	Skillful in intrigues Strong favoritism Relational trap is sophisticated	Less skillful in intrigues Weaker favoritism Relational trap is primitive
Relational inertia	Greater	Less

## Network Structure

Field interviews seem to suggest that Chinese and Russian entrepreneurs do not differ much in terms of personal network size.<sup>39</sup> However, other structural properties of networks such as density, diversity and internal hierarchy seem to differ sharply. The Chinese entrepreneurs' *guanxi* networks appear to be denser and contain fewer structural holes, i.e., disconnected contacts, than Russians' *svyazi* networks probably due to the cultural inclinations of the Chinese to prefer fewer yet trusted particularistic ties. Personal networks (*guanxiwang*) of the Chinese entrepreneurs are composed of more family members, classmates and friends who know each other for extended periods of time. Thus, the well-articulated concept “*guanxi* base” seems to hold true empirically.<sup>40</sup> In contrast, relational base does not seem to play an important role for Russians' networking, and this feature makes their networks less dense containing more structural holes. It may be speculated that the Chinese benefit from coherent and close networks of ties whereas the Russians enjoy less coherent and looser networks of ties containing many structural holes.<sup>41</sup>

Networks of the Russian entrepreneurs are more diverse in terms of tie characteristics such as demography, industry and occupational status than *guanxi* networks of the Chinese. Multiple social recruitment sources, e.g., beyond family and classmates, the general social chaos that occurred with the collapse of the Soviet Union, and many vaguely defined weak relationships make Russian networks heterophilous. High homophily of Chinese networks is consistent with the dense and controlled features of their networks.

Chinese *guanxi* networks are more hierarchical than Russians' *seti*. The Chinese have a strong sense of role obligations (*lun*) between members of their networks (e.g., parent-child relationship), and are more inclined to "place" members according to the formal hierarchy.<sup>42</sup> Although one may observe internal hierarchies in Russian networks, these are based more on status, power and wealth of network members rather than on role obligations or demographic characteristics such as age or gender, as in the Chinese case.

Field interviews suggest that the Chinese entrepreneurs are more aware of being central in their networks and benefit from various intermediary actions and roles than the Russians are. A Chinese entrepreneur appears as a skillful networker and shrewd manipulator who knows and practices well the ancient Chinese art of networking – *guanxixue*.<sup>43</sup> An ability to generate more social "receivables" than "payables" and "milk" relationships for instrumental and emotional gain is a crucial benefit to being central in one's networks. By contrast, the Russians have not yet the articulated "art" of networking, and networking is seen as a set of practical actions for establishing and maintaining ties.

Chinese dyadic (two-person) ties are more particularistic contingent on the relational base and require frequent interactions and intense efforts to maintain relationships. Dyadic ties in the Chinese context can be multi-content, i.e., a single relationship fulfils various functions including an instrumental benefit, access to information and knowledge, or political protection. Two-person relationships in Russia are less particularistic and intense, and they do not usually require frequent tie re-activation once some kind of relationship has been established. In this way, the rate of "bridge decay" is faster in China. Chinese dyadic ties are more costly to establish and

maintain in terms of time, resources and commitment. As a result, the two sides in a Chinese dyadic relationship are more motivated to mobilize resources for each other making dyadic ties more effective and trustworthy than in Russia.

Chinese and Russian triads (three-person relationships) differ in terms of mutual expectations, social control mechanisms, and symbolic aspects of interactions. The central actor in the Chinese triangle is more powerful and has many social leverages to influence behaviors of triad members than the central player in the Russian *troika*.<sup>44</sup> For example, gaining and saving face – *mianzi* - plays a vital role in regulating relationships between triad members in the Chinese context. In Russia, there is no such social and psychological concept to regulate the social behavior of individuals and groups. Social sanctions or “punishments” are more effective in the Chinese triads because *mianzi* serves as a social currency that has a definite value. In addition, the Chinese are likely to have higher expectations and show more conformist behaviors in triple relationships for cultural reasons.

Although the two studies employed different methods, they suggest that Chinese networks are more stable over time both in terms of changes in structural properties and membership turnover compared to Russian networks.<sup>45</sup> The Chinese are more conservative socially, have greater relational inertia defined as a tendency to stick to the same social ties over time, and are motivated to preserve existing relationships since ties generate acceptable net returns.

#### Relational Aspect of Networks

Differences in the way in which networks function is more evident in relational aspects because they involve concrete individuals and groups rather than abstract

structures. Relational origins in Chinese and Russian entrepreneurial networks are different in some ways yet similar in other ways. In China, *guanxi* bases or origins include family, hometown, same surname, ethnicity, gender, same school including university, same organization – *danwei* -, and shared experience, e.g., - *hai gui* entrepreneurs.<sup>46</sup> Russian entrepreneurs do not pay attention to relational origins as much as the Chinese do. However, there are factors that initiate or “pull” relationships in Russia: same college, ethnicity, gender and shared experience may well be a reason for social “hook-ups”. For example, classmates (*odnoklassnik*) and Soviet Army experience, including the Afghan war veterans-*Afganets*, are common bases for Russian *svyazi*.

Chinese relationships are multi-layered in terms of strong and weak ties, and boundaries between strong and weak relationships are gradual and nuanced. By contrast, differences between strong and weak ties in Russia are clear-cut and tangible in terms of trust, instrumental mobilization and emotional closeness.

*Guanxi* ties are intensely personalized and there is no clear separation of personal and professional *guanxi* in China. Russian networks are less personalized, and there are personal (*lichnye*) and business (*delovye*) segments within network clusters. In addition, the Russians tend to keep a greater distance in interpersonal relationships than the Chinese. For example, the word *blat* might be used to refer to instrumental ties whereas terms such as *svoi* or *tusovka* are used to separate a close circle of friends from job related contacts.<sup>47</sup>

Both the Russians and Chinese are trustworthy and distrustful in different ways. The Chinese are trustful of their family members and close friends and distrustful of those whom they do not know more than the Russians. The Chinese generally trust those

who have been recommended to them by a trustworthy source- a family member or close friend - because information diffusion and re-enforcing mechanisms are more effective in *guanxi* clusters than in Russian *svyazi* networks.<sup>48</sup> For example, the following conversation with CEO of a Chinese Internet platform provider-firm supports this assertion (Author's interview, April 2002, Beijing):

CEO: I met Wang at a private party hosted by a friend. My friend and Wang were classmates in the School of the Communist Party of China... It was a risky decision to sign such a large contract with him because his firm does not specialize in a type of digital image equipment, which we were looking for. I also was worried that they can not customize their products to our needs because all our clients are Chinese firms.

Author: Why did you then sign the contract?

CEO: Well, it is complicated... It was cheaper although there were issues on quality side. And the guy appeared honest and trustworthy. I verified that with my friend who knows him well...

In this way, interpersonal trust is more “transferable” in China. In addition, the Chinese are more skillful in establishing well-defined exchange rules and ruthlessly punishing “social criminals”. An effective way to cultivate trust in China is to use a “trusted” intermediary. Direct trust-building can be effective but it will take longer and require more fine-tuned efforts from both sides.

The Russians do trust their family members but clan-type relationships do not exist in Russia. Unlike the Chinese, Russians are less trustful of third parties even if a trusted intermediary has recommended that person. A successful Russian banker said in an interview (Author's interview, May 1999, Moscow):

Banker: ... nowadays it is difficult to trust (*doveryat*) people when everybody tries to out maneuver or screw up others...

Author: Even your friends?

Banker: Sometimes.

Author: How about friends of friends?

Banker: Oh, worse... I prefer to deal (*imet' delo*) with those whom I know well.

The Russian practice of “I am from Alexandr Alexandrovich” thus applies to instrumental actions rather than intimate trust cultivation. The Russians prefer to establish direct personal relationships since triad ties are perceived risky in the chaotic and crisis-driven environment. Direct communications are more effective for trust-building in Russia.

Reciprocity is a core feature of personal relationships both in Russia and China. The Chinese notion *renching* (human obligation) refers to a well-articulated set of expectations, exchange norms and informal re-enforcing devices.<sup>49</sup> The Russian concept *vzaimnost'* is simpler, less universal and often ignored in relationships. Therefore, the Russians have to rely more on “mechanical” monitoring techniques, and this leads to higher cost in terms of re-enforcement of social obligations.

Various symbols and rituals play important roles in Chinese and Russian networks. Gaining, giving, saving and losing face are recognized symbolic interactions in Confucian cultures. Highly ritualistic interactions such as gift giving, social dining and tea sessions are prevalent routines in *guanxi* relationships.<sup>50</sup> There are many indirect signals and “silent messages” in *guanxi* practice. The Russians are less ritualistic but there are important symbolic routines such as gift giving (*podarki*), vodka sessions, and tea drinking (*chai pitie*) and going to Russian *banya* (bathhouse).<sup>51</sup>

The Chinese and Russian entrepreneurs mobilize many types of resources from their network members. The Chinese entrepreneurs secure political protection and access

to state-owned resources, government contracts, subsidies and state media channels for advertising from *guanxi* relationships with government officials. Indeed, most entrepreneurs regard bureaucrats as core members of their *guanxiwang* and stay in close contact with them because resources controlled by Chinese officials are vast.<sup>52</sup>

The Russian entrepreneurs obtain various kinds of resources from their *svyazi* networks in similar ways but with two major differences.<sup>53</sup> First, government officials are less important in *svyazi* networks of small entrepreneurs because the central and local governments in Russia are poor and much of what was formerly state property, - such as factories, mines, oil fields and other state enterprises, - were “grabbed” by oligarch-type “entrepreneurs” with the help of corrupt bureaucrats through dubious privatization policies.<sup>54</sup> Second, relationships with police, public security organizations, and private protection agencies – *krysha* (roof) - that provide vital protection from the Russian *mafia* and other criminals are core members in Russian entrepreneurs’ networks.<sup>55</sup>

#### The Dark Side of Social Capital

Social capital of Chinese and Russian managers and entrepreneurs have both bright and dark sides.<sup>56</sup> There is growing empirical evidence in the West that social embeddedness has a negative aspect: tightly controlled relationships reinforce social obligations and expectations that at times may limit freedom to recognize and exploit new opportunities.<sup>57</sup>

The Chinese and Russian entrepreneurs may behave opportunistically in relationships since both have little previous experience in managing personal and business relationships in market-oriented economic systems. Russian social manipulations are blunt and easier to detect whereas Chinese intrigues are indirect and

hidden. Thus, the Chinese are more skillful in network machinations. Gossip is a vital element in both networks, though it is more efficient and severe in Chinese networks. Secrecy prevails in both Russian and Chinese cultures and serves as a barrier between competing network clusters. Relational favoritism and nepotism is stronger in China because the Chinese have inherent propensities to categorize people into closer and distant groups and treat them accordingly. The Russians have social categories such as *svoi* (ours) and *ne-svoi* (not ours) but nepotism in relationships is less severe than in China. Social pressures to conform are strong in China and as a result, the Chinese “relational trap” is overwhelming and difficult to get out of once someone falls in. The Chinese seem to have greater relational inertia and face the negative consequences of sticking to the same old ties over an extended period of time. In both countries, informal relationships serve as breeding grounds for corruption, bribery and other illegal activities.

### **Implications for Western Executives**

Networking is a way of life in both China and Russia. Therefore, Western executives must understand techniques, nuances and limitations of successful networking in the two countries. Entrepreneurs and investors should start with basic cultural and social knowledge of the two peoples.

#### Approaching the Chinese and Russians

Chinese names are notoriously difficult to pronounce correctly. The Chinese usually put surnames first followed by given names, e.g., Wang Tinghao. The Russians usually start with their given name followed by father’s name and surname, e.g., Sergei Petrovich Ivanov. Correct pronunciation and memorizing of names is a “must” in both cultures. Name is regarded as an important attribute of the Chinese filial piety, and

therefore, ignorant attitude and inappropriate comments on names may be offensive.<sup>58</sup>

Fortunately, many Chinese professionals have English first names. You may come across many Jessica Zhangs or Frank Lius. A common mistake of Westerners in China is to treat those Chinese who have English names as though they were Westerners. Even if the person has an English name and seemingly behaves in Western ways, the Chinese entrepreneurs remain quintessential “Confucian merchants” despite the widespread influences of modernization and globalization.<sup>59</sup> The Chinese are more pragmatic in relationships and multiple identities seem to comfortably “sit” in a person.

The Russians are less likely to compartmentalize their personal identities and usually do not use English names. Culturally, the Russians prefer to have one identity and be consistent in their communications.<sup>60</sup> The downside of this, however, is that the Russians may appear less pragmatic and show unnecessary distance in relationships.

China and Russia have some of the oldest and enduring cultures and civilizations in the world. Accordingly, both peoples are keenly aware of their cultural heritage, and in general they are proud cultural patriots. Basic knowledge of two countries’ art, literature, music and simple phrases in their languages are likely to smooth out your introductions and conversations. Business dress code is not well established in both countries although the Chinese and Russians are less formal than the British and humbler than the French and Italians in their business attire.

Establishing enduring and trusted relationships is the first step of entrepreneurial success in China and Russia. The Chinese employ the technique called *la guanxi*, i.e., a complex set of recruitment methods, rituals and tricks.<sup>61</sup> The Russians use fewer tricks to pull relationships, and tie formation is more spontaneous.<sup>62</sup> In China, it is desirable to

approach someone through trusted intermediaries, and the chain of relationships may go on and on as long as interpersonal trust exists in each connection. The Russian entrepreneurs prefer direct tie formation, and if more than one intermediary is involved in relationships, it will lose its effectiveness since interpersonal trust is much lower in Russia than in China.<sup>63</sup>

Both the Russians and Chinese have a strong sense of equality. The Chinese are less direct and therefore, you must learn to understand their signals and read “in-between the lines”. By contrast, the Russians are more to-the-point and therefore, you should be as frank as possible but polite and respectful. Otherwise, the Russians may misinterpret your meaning causing undesirable confusion and tension.

#### Cultural Context for Socialization

Although there are a few common appearances, Chinese and Russian food culture sets the two nations far apart. Russian food culture resembles European food culture.<sup>64</sup> In China, by contrast, it is common to serve donkey or dog for dinner, and therefore, you must be able to manage your own culture shock if you come across such banquets. Attitudes of a militant animal rights activist certainly will not promote your business interests in China. Russian banquets tend to have heavy vodka sessions. Unless you are “vodka lover”, you should not “compete” with the Russians since they are legendary in holding their liquor.<sup>65</sup>

Gifts are a must ritual in both countries.<sup>66</sup> The Chinese calculate power and status of the receiver crudely and choose gifts accordingly. The higher the status of the receiver the greater the value of the gift.<sup>67</sup> The Russians do not make obvious calculations in choosing gifts although value of the *podarki* may signal respect and recognition. In

China, Westerners must avoid giving any kind of watch since it symbolizes bad luck. In Russia, a watch is a desirable gift because it symbolizes the future and good fortune according to Russian folk beliefs.

A very Russian way of trust building is socializing in traditional Russian *banya* (bathhouse).<sup>68</sup> Arguably, many important decisions in Russia are made in the *banya*. Irina Hakamada, the outspoken Russian female politician and former cabinet minister, once famously said: Russian women-politicians will take a real part in decision making only when Russian men-politicians end making decisions in *banya* with beer and girls.<sup>69</sup> For those who would like to win deep trust of the Russians, *banya* is the place to go although some Westerners may find it uncomfortable because of its nudity.

The Chinese and Russians love informal discussions. However, the Chinese are less interested in macro-political and abstract issues such as government policy or international conflicts whereas the Russians excel at hot debates about government policy or the latest global war on terrorism, though they may have a little knowledge about events in their districts or cities. The Russians thus are more global and “politicized” than the Chinese who are more local and practical in their learning behaviors.

Personal/private questions are routinely asked, debated and judged in China and Russia. Questions about income, age, marital status, morphology, body and other private matters are regarded as “public”, and therefore, one should be prepared to confront such questions. The Russians are more “private” than the Chinese. How much information you would like to disclose is up to you but certain signals and gestures to avoid intrusive questions are desirable to establish a balance. In general, Russians will not ask questions about age and marital status; in particular, Russian women will not tolerate such

discussions. By contrast, the Chinese regard asking personal questions as indicators of care and warmth in relationships.

The Russians are more expressive in communications and expressing sincerely one's feelings is regarded as appropriate and desirable. The Chinese regard open displays of emotions as unbalanced and prefer the "emotional golden mean".

Managing relational problems also contrasts the two cultures. Chinese *guanxi* work better in stable conditions when times are good. However, *guanxi* mechanisms are less effective in crisis situations because *guanxi* exchanges are indirect, highly ritualistic and inefficient. Cultural dispositions of the Chinese are more feminine, harmony and peace loving, and they shy away from open confrontations.<sup>70</sup> *Guanxi* is a good mechanism for managing up-side growth but lacks tricks and techniques useful in problem situations. The Chinese are less prepared and able to work in conflict situations than the Russians.

On the contrary, Russian *svyazi* function better in urgent situations when one needs direct and efficient communications without rituals. In this sense, *svyazi* relationships require less effort during crisis than *guanxi*. Cultural dispositions of the Russians are masculine, less compromising and able to bear conflicts and fights, and as a result, *svyazi* relationships are efficient channels for managing down-side problems.<sup>71</sup>

#### Communications and Negotiations

The main business language is likely to be English in both countries. The Russians speak better English but the linguistic barrier is often a headache in both countries. The Chinese and Russians are not as reliant on email as North-Americans, though frequent communications are "must" tricks in relationship maintenance. It is

practical to be tolerant of their English mistakes, and desirable to send properly written messages so that the other side learns something, which may ultimately facilitate your business communications. The Chinese and Russians regard emails as correspondence between two individuals with their identities rather than sending emails to a message board. Therefore, basics of e-manners should be followed. Messages that are acceptable in the West may be perceived disrespectful in Russia or too direct in China.

Specific entrepreneurial issues might be addressed through effective networking strategies and tactics. Western venture capitalists, joint venture partners, and suppliers/customers should try to establish certain cognitive and interpersonal trust with their Chinese and Russian counterparts as soon as sides are serious about doing business. Understanding each other's mental models, decision making styles, and personalities may facilitate business negotiations. Conducting due diligence on the ability, experience, honesty, trustworthiness and intentions of the entrepreneurial team will be easier if you have some kind of direct and indirect prior relationships. Due diligence on the social capital of your counterparts, i.e., network resources, reputation and informal influence, is a vital action to take in the cultures where "whom you know" and "who knows you" often decide one's entrepreneurial destinations. Clear informal rules and expectations on involvement, support, and information disclosures will be helpful to avoid confusions and conflicts in interactions.

Value negotiations are painstaking both in Russia and China. Private equity valuation methods and accounting practices are primitive. The Chinese and Russians excel at creative accounting, and financial statements are full of "surprises" and inconsistencies. Trusted relationships may help you to get accurate information. The

Chinese are patient negotiators who like to ramble, and therefore, you may come across many different meanings of the same thing in different times and conditions.<sup>72</sup> The Chinese are likely to make many forward and backward moves, and in this way, they are verifying their understanding of your positions and postures. The Russians are straightforward, and do not mind scenes and scandals in negotiations although there are a whole set of sophisticated techniques that they inherited from the Soviet days.<sup>73</sup> Both the Chinese and Russians are tough negotiators and do not like to make too many concessions.

### **Conclusion**

The above descriptions are generalizations about the Chinese and Russian entrepreneurs as “cultural” groups from the perspective that culture is the collective programming of the mind, which distinguishes the members of one category of people from those another.<sup>74</sup> However, networking behaviors and strategies of entrepreneurs will be different within one country contingent upon industry, region, age, gender, ethnicity, education, Western experience, and other factors. Therefore, the most effective network building and maintaining strategy for Western executives in China and Russia is to craft strategies and tactics that reflect both general network parameters and unique characteristics of the business counterpart.

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