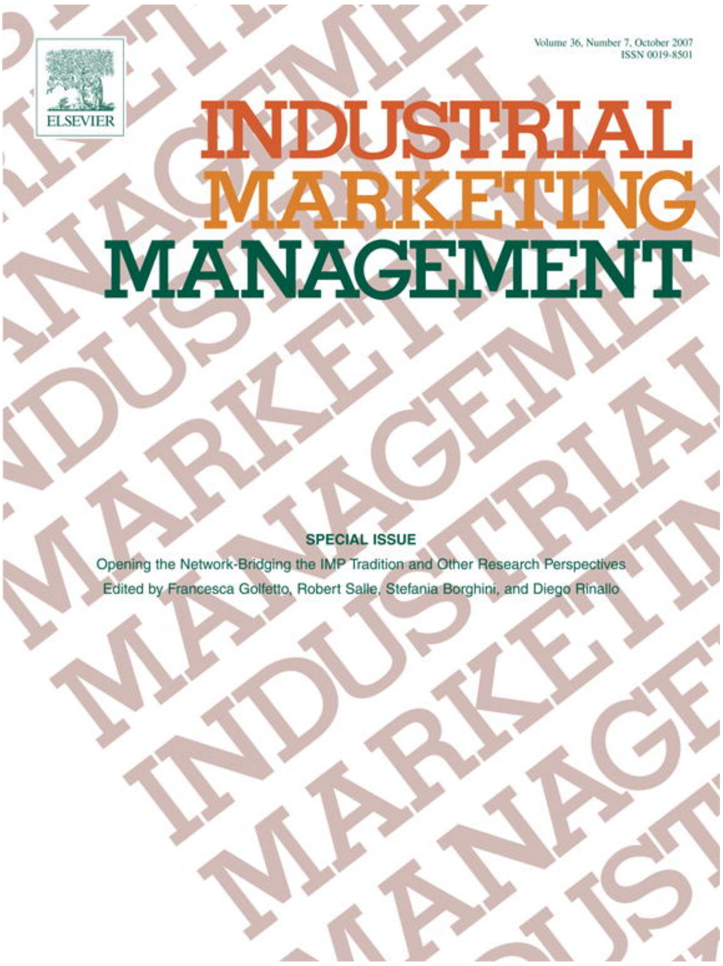
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Institutions and business networks: A comparative analysis of the Chinese, Russian, and West European markets

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Abstract

The paper analyses business networks originating from three markets: Chinese, Russian, and West European. So far, little attention has been given to the fact that business networks in particular markets may be dissimilar because of differences among institutions. The paper advances a model where institutions are assumed to influence five major characteristics of business; (1) the processual aspects of the network, (2) the structural aspects of the network, (3) the function of firms and relationships in the network, (4) the meaning of strategy and planning, and (5) social relationships in the context of inter-firm relationships. The analysis builds on three types of substances of institutions — cognitive, normative, and regulative, which in turn are specified according to different aspects. The cognitive substance of business networks is explored through the aspects of self, time, and causality. The normative substance is explored through the aspects of achieved versus ascribed status, inner versus outer direction, universalism versus particularism, and trust. The regulative substance is specified as an authority system and a sanction system. The analysis demonstrates that, as institutions differ in these three markets, the business among them also differs in terms of the five characteristics, and this variation calls for different strategies for firms operating in these markets.

Keywords: Institutions; Business networks; Chinese; Russian; West European

1. Introduction

For almost thirty years, findings made by the so-called Industrial Marketing and Purchasing group (IMP) have increased our understanding of how business markets function. The theoretical contribution that was made in the 1980s mainly built on empirical studies of markets in Western Europe, because countries like China and the planned economies of Central and Eastern Europe were governed by the State and, therefore, not accessible for empirical research. However, these markets are now accessible both for marketing scholars and practitioners. This paper aims to open up the Chinese and Russian business networks and to discuss them in relation to West European networks. We draw on empirical findings presented in the literature as we aim to contribute to the emerging theory on business networks. Because the main reason why these markets are opening up is extensive institutional change, we combine theories on business networks with institutional theory.

The West European business network originates from the 'old' European market economies of EU 15. The Chinese business network originates from Greater China (China, Hong Kong, Taiwan), and includes the overseas Chinese business system mainly found in Southeast Asia within the ASEAN free trade area (AFTA). The Russian business network is found in Russia and other countries of the former Soviet Union.

A core idea in the network approach conceptualized in the IMP tradition is that networks both influence and are influenced

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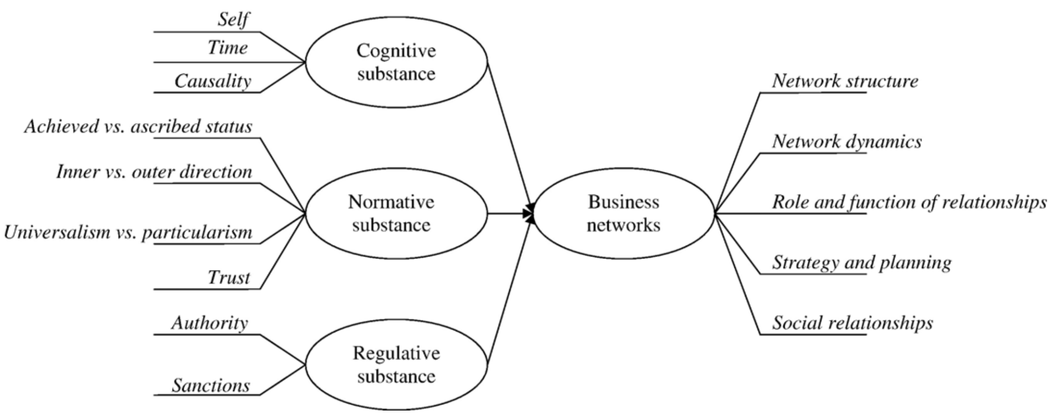

Fig. 1. A model of institutions and business networks.

by various elements in their environment (Håkansson, 1982; Håkansson & Snehota, 1995; Turnbull & Valla, 1986). Apart from typical elements in the environment, such as competitors, suppliers, government, and trade unions, there is also an interchange between the firm and less visible elements, such as regulations, norms, values, typifications, and schemas. In fact, firms are subsystems of a wider social system, which is the "source of "meaning," legitimacy, or higher-level support that makes implementation of organizational goals possible (Parsons, 1956).

We base the analysis of institutions on Scott's (1995, p. 33) idea that "Institutions consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior" and the analysis of networks on findings made by the IMP Group (Ford, 2002). We recognize that institutions can be viewed as emerging from processes within the networks, but this analysis proposes that networks are influenced by the prevailing institutions (see Fig. 1).

The outline of the paper is the following. Section 2 provides a review of the IMP perspective on business networks, in which we present five characteristics of business networks. Section 3 focuses on institutions, and in Sections 4–6 we specifically discuss three types of contents of institutional structures and activities, namely cognitive, normative, and regulative substances. Then in Sections 7–9 we offer a comparative analysis of the West European, Chinese, and Russian business networks. Section 11 completes the paper with a presentation of managerial implications concerning how actors should manage relationships within these three business networks.

2. Business networks

Since the basis for the comparison of networks in this paper is the West European network, a description of its fundamentals is necessary. The IMP perspective on business networks was developed and empirically tested, to a large extent, in the Nordic countries (see e.g., Axelsson & Easton, 1992; Ford, 2002; Håkansson, 1982; Håkansson & Snehota, 1995; Jansson, 1994a, 1994b; Johanson & Mattsson 1987, 2005; Snehota, 1990). The IMP perspective was originally applied to buyer–seller relationships between West European firms, but was later extended to firms in Asia, North America, and Australia (Håkansson & Snehota, 2000). In the second step of the theoretical development of the IMP perspective, the unit of analysis was extended, and a vast number of researchers moved the focus from the dyadic relationship to a set of interconnected relationships, which was coined as a "business network" (Anderson, Håkansson, & Johanson, 1994; Axelsson & Easton, 1992; Håkansson & Snehota, 1995).

There are several characteristics of the operation of business networks. Specifically, when analyzing business networks we focus on five characteristics: (1) the process aspects of the network, (2) the structural aspects of the network, (3) the function of firms and relationships in the network, (4) the meaning of strategy and planning, and (5) social relationships in relation to inter-firm relationships.

The process aspect of networks refers to the dynamics or temporal aspects of networks. Although the terms "relationships" and "network" imply stability, this does not mean that all relationships are stable and that the firm always applies a long-term perspective to relationships (Gadde & Mattsson, 1987). Firms can have long-term, mid-term, or short-term perspectives in their relationships. This, in turn, is closely related to the reasons why relationships are established, developed and, especially, terminated (Snehota, 1993). Depending on the prevailing time perspective in the market, one can expect different rationales as to why relationships are established and terminated (Medlin, 2004).

Stability in the network does not mean that it is not changing (Halinen, Salmi, & Havila, 1999). Stable relationships can be a platform for change of other relationships in the network in terms of, for instance, termination or establishment. Stable relationships can also be characterized by change and be dynamic in a similar fashion to product and production process development, improvement of other types of relationship activities, such as administration, payment, transportation, and so forth (Håkansson, 1987).

The structural aspect of networks has several dimensions worth consideration. In contrast to the process aspect, structure refers to the spatial dimension of the network or its form. The strength of relationships as a consequence of adaptations, investment, and other types of commitment (Ford, 1980) promotes a network that is costly and difficult to enter as well as to leave (Brennan, Turnbull, & Wilson, 2003; Hallén, Johanson, & Seyed-Mohamed, 1991). Thus, whether a network is open or closed, and understandable or not for outsiders is an important aspect of the business network's structure (Johanson & Strömsten, 2006). Such aspects of the network structure have within the IMP tradition been understood in two ways. Firstly, the firm holds a specific position in the network based on its resource investment (Johanson & Mattsson, 1985). Secondly, relationships are interconnected and influence each other in different ways (Blankenburg Holm, Eriksson, & Johanson, 1999).

The position of the firm and the connectivity of relationships also have to do with *what functions firms and relationships are perceived to perform*. Relationships can be viewed as means for value production and cost reduction, where relationships that fail in this respect should be terminated. But network relationships can also have a wider function, being seen as a prerequisite for business. Both functions are related to how different activities in the network are encouraged and discouraged. Different types of network structures also give firms different functions. The type of function performed by a firm makes up an important piece in the identity-building process in the business network (Anderson et al., 1994; Snehota, 1990).

The meaning of strategy and how business is planned in the network has also attracted IMP scholars' interest (Håkansson & Snehota, 1989). The IMP perspective seems to criticize the received theory on strategic planning made by firms in isolation from the market (Gadde, Huemer, & Håkansson, 2003). Yet, how and on what basis decisions are made are critical aspects of the daily operations in firms — for instance, the importance of emotion and rational calculation. Strategic management also has to do with the firms' perceived need to control the surrounding network. The need to control actors and resources in the network (Håkansson & Johanson, 1992) and to monitor what takes place in the network is, in turn, contingent on how close other firms are and whether other firms are perceived to be trustworthy.

Finally, *social and personal relationships in the context of inter-firm relationships in the business networks* relates to one of first findings of the IMP perspective (Håkansson, 1982). Business exchange does not take place in isolation from social relationships; economic activities are embedded in sets of social relationships (Andersson, Holm, & Johanson, 2007; Granovetter, 1985). Thus, the degree of integration of social relationships in business relationships can take various forms and have various levels of importance. The mechanism of how social relationships are established and maintained is also a critical aspect in business networks.

In one of the first international manifestations of the IMP perspective, the link between institutions and exchange between customers and suppliers was explored (Håkansson, 1982). Interaction was proposed to take place and be contingent on the interaction environment, which very much resembles what today are called institutions. Since then, these ideas have seldom been a topic of research for IMP scholars. Networks can be viewed as institutions, as they incorporate specific patterns, stability, and common behavior among the firms in the network. "Institution" often implies the social unit that houses regularized and stable behavior, for example a family, clan, organization, nation, market, game, or ceremony. This implication is also valid for relationships and networks.

3. Institutions

It is generally accepted that business practices vary across different markets. Research suggests the reason is because various practices are affected by the institutions prevailing in the markets (Adler, 1995; Janssens, Brett, & Smith, 1995; Jansson, 2007a; Kogut, 1991; Kostova & Roth, 2002; Lincoln & McBride, 1986; Rosenzweig & Singh, 1991). Several studies show that firms from different markets operate according to different underlying principles and exhibit dissimilar inter-firm business practices (Campbell & Lindberg, 1990; Cole, 1989; Hall, 1986; Jepperson & Meyer, 1991; Orru, Bighart, & Hamilton, 1991; Whitley, 1991, 1992a, 1999). This means that business networks are likely to be governed by different institutions.

To describe institutions, words like codes, rules, habits, routines, and procedures are often used, which imply that human behavior is regular and stable. A major characteristic of institutions is their rule-like or organizing nature – "the rules of the game" – and a second characteristic is their ability to facilitate and constrain the relationships between firms (Jansson, 2007a; North, 1990, 2005). A third characteristic is that they typically change only slowly and gradually.

Culture, from an institutional perspective, is seen as an assembly of informal rules. The idea that institutions and culture are interconnected is stressed by a number of researchers (Douglas, 1986; Hofstede, 2001; Hofstede & Bond, 1988; Jansson, 2007a; North, 2005; Scott, 1995). Thus, cultural theory and institutional theory are in many ways close to each other. In this study, cultural theory is used in order to substantiate different institutions.

There are three major substances of institutions: *cognitive*, *normative*, and *regulative* substance (Scott, 1995). Firm behavior therefore varies according to substance. The cognitive aspect of culture is often stressed in various studies of business culture (Hofstede, 2001; Jepperson, 1991; Redding, 1980), as is the normative substance (Kroeber & Kluckholm, 1952; Trompenaars, 1993). The regulative substance is more typical of the institutional approach.

4. The cognitive substance

The cognitive substance relates to how people think, why they think in common, the way they do it and what talk, decisions, and actions result from this thinking (Douglas, 1986). The cognitive substance reflects shared knowledge and cognitive categories, such as schemata and stereotypes (Ionascu, Meyer, & Estrin, 2004). Wider belief systems and cultural frames consist of routines and scripts, which are used by actors in a network to solve problems. Belief systems also influence the way a particular phenomenon is categorized and interpreted (Ionascu et al., 2004; Scott, 2001). The cognitive substance involves learning processes; it is easier to learn a new practice when it is consistent with the prevalent schemas than when it is inconsistent with these schemas. In other words, the cognitive dimension of institutions develops the identity system or the structures of the mind. Since the established patterns are reproduced over time, current thought styles can be seen as the crystallization of history in the minds of people in the network. People from a specific culture tend to behave in a common way due to the "mental program" developed among them (Hofstede, 2001).

Cultural models that deal with the cognitive substance (e.g. Hofstede, 2001) can be used to describe different thought styles. Inspired by Hofstede (2001), but also by Ehn & Löfgren (1982) and Redding (1980), we advance the idea that the cognitive substance can be understood through three aspects: self, time, and causality.

Self concerns how a person mentally relates to his or her social environment. This dimension is close to Hofstede's (1980) individualism/collectivism dichotomy. In an inter-firm business network, self can be defined as how people in a firm identify themselves with other firms and people.

Time refers to the period through which an action or a relationship continues. More basically it has to do with how time is perceived, i.e. if it is viewed as linear or circular. For firms in business networks, time can therefore be viewed as a limited stretch or space of continued existence.

Causality focuses on mental processes, for example whether a thought style is abstract or non-abstract; whether logical connections are made between categories; and whether linear, sequential explanations are made. Causation concerns the relationship between cause and effect and therefore relates to the basis on which firms in business networks make decisions and how they relate to the results of the decisions.

5. The normative substance

An important characteristic of institutions is that they provide normative rules stating what actions are acceptable or not, making it possible to separate between preferred and desirable behavior (Scott, 2001), i.e. the normative substance consists of values and norms. It supports and empowers activities and actors, provide guidelines and resources for acting and constraints on action. In line with this, it influences how firms exchange resources and establish relationships.

Values are the roots of behavior—for example, the importance of business values such as honesty, self-discipline, working toward common goals, and personal achievement. Values set standards to which behaviour can be compared and assessed. Norms work as prescriptions for acting that create "expectations about behavior that are at least partially shared by a group of decision makers" (Heide & John, 1992, p. 34). Norms can be viewed as the acceptable behavior, a convention or practice, to which behavior should conform.

When the purpose is to describe the values part of the normative substance, the studies by Trompenaars (1993) and Hampden-Turner & Trompenaars (2000) are useful, especially since they build on the "pattern variables" established by Parsons & Shils (1951). Three of their aspects are used here together with trust to specify the normative substance governing the business networks.

Ascribed versus achieved status concerns what an actor's status in a network is based upon. An actor may, for instance, be ascribed a specific status based on a common background such as family, clan, or caste. Status may also be achieved based on the personal merits or performance of the actor.

Inner versus outer direction expresses whether values, such as morality and ethics, are located inside or outside actors. Values, for instance, could have been internalized, or they could exist outside the actor in the network. "Shame" cultures found in many Asian markets contain values characterized by outer direction, since individuals tend to follow the values of the outside groups rather than their own inner conscience, while the "guilt" culture found in many Western countries is based on inner-directed values.

Universalism versus particularism expresses the general validity of values. For example, if behavior is based on a universal value, it is supposed to be followed by everybody and not only a particular group. Relationship aspects related to this dichotomy are how open, formal, general, and rational they are. A relationship can be a result of particularistic rather than universal values, for instance, if certain circumstances override the importance of general rules in determining what is right and good.

Trust is a major norm prevailing in the social organization of the business network. Being a trustworthy seller, for example, creates expectations on behalf of the buyer that the seller will behave in a specific way, such as producing reliable goods. If a seller can be trusted, it makes the buyer act in a certain way toward the seller. Trust is also mutual.

6. The regulative substance

Values and norms expressed as priorities specify the actions that a set of actors regard as correct or incorrect and according to which they are expected to decide and act. But such normative rules do not specify what happens if expectations based on them do not occur. So, for behavior to be effective, incentives and sanctions must also be present. The regulative content therefore concerns reward and punishment as well as surveillance and assessment systems to control enforcement. Enforcement mechanisms can be either formal (e.g. wage reductions or increases) or informal (losing or gaining face). The latter operate through diffuse mechanisms such as "shaming" or "shunning" activities (Ionascu et al., 2004). Formal rules external to firms are housed in specialized institutions such as the police or the courts. The regulative substance involves the capacity to establish rules, inspect others' conformity to them, and manipulate sanctions such as rewards or punishments in order to influence behaviour. The power of regulations is the costliness of ascertaining violations and the severity of punishment (Scott, 2001). Two major aspects of the regulative substance seem to be especially important for business networks, namely, the *authority system* and the *sanction system*.

The authority system refers to the aspect in the network that gives the right to control or to enforce. For instance, powerful actors may impose their will on others, provide inducements to secure compliance, or use authority in which coercive power is legitimized by a normative structure that both supports and constrains the exercise of power (Scott, 2001). Thus, the authority system has a decisive effect on how relationships are organized. We distinguish between a modern Western authority system and a traditional paternalistic authority system. The paternalistic authority is a relic from a traditional pre-industrial family-centered society. It is personal and thus its legitimacy is based on everyday routine and an unchanging past. People obey out of respect for the ruler's traditional status, while decisions are limited by customs and traditions.

A vital aspect of the regulative structure is the *sanction system.* A sanction system is a set of measures, such as laws or customs, to reward or punish activities in the network. It relates partly to formal legislation but also to informal sanction mechanisms. Another aspect concerns the type of sanction: incentive or punishment. Consequently, the sanction system deals with both what activities to reward or punish, as well as what types of reward or punishment prevails in the network. A sanction system aims, therefore, to restrict non-acceptable behaviour and encourage acceptable behaviour.

7. Opening up the Chinese and Russian business networks

Russian business networks have been selected because they are the major type of network in Russia and East Europe. Chinese business networks, for their part, dominate in East and Southeast Asia. The core of the Chinese business network – the family business system – has been dominant in Southeast Asia, Hong Kong, and Taiwan for a long time (Jansson & Ramström, 2005; Redding, 1991; Whitley, 1992a, 1992b). With the rapid liberalization of markets and privatization of companies, this system has also become a dominant force in mainland China (Child & Rodrigues, 2005; Jansson & Söderman, 2007; Zheng & Williamson, 2003). The basis for the comparison of these business networks is the West European network.

The countries housing the Chinese and Russian economic system are undergoing extensive institutional changes (Jansson, 2007a; Peng & Luo, 2000). One characteristic of the mainland Chinese and Russian national markets, for example, is that the whole society is in change or transition. Networks are rapidly changing, and these changes need to be understood in relation to the institutions. China and Russia are leaving a system where the economic activities were organized by hierarchical plans based on a command economy. Now various market modes have appeared, involving liberalization of prices. There are also signs of increasing differentiation between the countries in the post-command decade (Michailova & Worm, 2003). The emerging economic order in China can be defined as "network capitalism" even though China still espouses socialism as its official ideology (Michailova and Worm, 2003, p. 510).

Corporate governance is undergoing a transition from state and collective ownership where a very small portion of the economy was in the hands of private owners to a mixture of state, private, collective, and foreign ownership. Other institutional changes typical in China and Russia are the appearance of a property-based legal framework, a bankruptcy act and business legislation, capital and financial markets, as well as abolition of entry barriers for new firms (Jansson, 2007a).

Laws are also changing, as are regulations and the political and formal governance systems. It follows that the institutions, which for a long time were characterized by stability and predictability, have over the last ten years become turbulent and unpredictable (Roth & Kostova, 2003). Already weak institutions have become even weaker, which means that firms cannot rely on formal institutions to solve conflicts, but must instead solve them by relying on informal institutions. This development is strengthened by the fact that in Russia and China there is a gap between existing and desired institutions. In contrast to Russia and China, the formal institutions in West Europe are stronger, more stable, and transparent (Koopman, 1991), meaning that there is an option to solve conflicts and problems within the network.

Institutional imperfection is understood as "the degree to which institutions are not well defined and established as well as the inconsistency between these institutions" (Roth & Kostova, 2003). These imperfections lead to a void with regard to desired formal institutions, where it is likely that firms often have to perform basic functions by themselves (Khanna & Palepy, 1999; Peng & Luo, 2000). Since perceived formal governance systems are unable to support effective business activities, firms may have to rely on informal institutions as substitutes (Kostova & Roth, 2002).

8. Cognitive substance of the Chinese, Russian, and West European business networks

8.1. Self

On the surface, the Chinese form "classic" external business networks like those found in the West, but Chinese business networks differ from their Western counterparts. The Chinese markets have a network like-structure and are organized according to those principles (Hamilton, 1996). Consequently, networks have become not only the organizing principle, but also the institutional medium of economic activity (Hamilton, 1996; Redding, 1990; Whitley, 1992b). Therefore network membership is not a question of becoming part of a certain type of network, but a question of becoming a trusted member in a networked market (Ramström, 2005). The main focus of the West European network is on the units in the network, i.e. the individual firms, which means that the identity of the firm is developed, while changes in the interaction in the relationships with other firms and the relationships emanate from the firm representing itself and its own interests.

The focus of the Chinese business network on the other hand, is on the collective or the network itself (Jansson & Ramström, 2005). Relationships in Chinese markets emanate from the person and relationships are personalistic. Through interaction, a positive or negative social flow determines whether the relationship moves up, down or laterally (Wong

& Leung, 2001). While social interaction in northern Europe has more of a supporting than a deterministic role for the business relationships, it is more clearly and specifically expressed in the ethnic Chinese context (Jansson, 2007a).

The situation is similar in Russia, where informal networks established during the period of the centrally planned economy are still important in business life (Berliner, 1952; Ledeneva, 1998). However, Russia is in gradual transition towards the West European model of "firms in networks" as it leaves a situation characterized by facelessness and anonymity (Johanson, 2004b; Salmi, 1996). The firm's identity becomes a product of its own operations in the network, and as the specific actors involved tend to have almost all the external contacts, they are crucial in this identity-building phase.

In Western as well as in Russian business networks, mostly autonomous individuals of firms are interconnected, and these relationships rest on rational and logical calculation and voluntary individual action. Chinese businesspeople, on the other hand, tend to use a more holistic style of thinking (Jansson & Ramström, 2005).

8.2. Time

The development of long-term inter-firm commitments in Chinese business networks is restricted to their own group (Whitley, 1991). Interdependence between groups, on the other hand, is managed on a short-term basis and policed through reputational networks rather than by long-term mutual dependence relationships (Whitley, 1991). Social relationships are thus long-term, often lifelong within the family. A business relationship may therefore lay dormant for long periods, but can be activated at any time when needed, indicating a cyclical perception of time. The Chinese believe that one should first establish the prerequisites for a long-term relationship, and when those are in place business transactions will follow (Jansson, 2007a). This is in contrast with the West European network, where transactions are built first and, if successful, a long-term relationship may follow. Chinese business networks are therefore socially strong, last over the long term, and represent a continuity of collective common interests (families, communities, and sets of friends and relatives).

Chinese firms therefore follow a more non-linear logic unlike that of their West European counterparts and do not believe that time is a scarce commodity. Northern Europeans, in particular, are also much more time conscious (Kumar & Worm, 2003). Consequently, relationships among West European firms are more lateral, less socially strong, and generally represent more mid-term economic interests. Even if business networks according to the IMP perspective are seen as long-term compared to the ideal short-term transactions of the perfect market, the basis for the continuity is more the value produced by doing business rather than the need to keep the social relationships strong. This also makes such networks more unstable and changing (Håkansson & Johanson, 1993). The higher preparedness of the parties to share risks means that actors are not afraid of change as long as it is perceived as an improvement. Thus, relationships in West Europe are more dynamic "within" and often constitute an arena for product and technology development. Changing the content of the relationship can even be viewed as a prerequisite for survival and growth.

Russians firms have a short-term orientation, which makes planning for the future difficult as the focus is on the past and the present, and managing is done on a day-by-day basis. The short-term horizon prevailing in Russia together with the absence of trust and reputation (Blanchard & Kremer, 1997; Gurkov, 1996; Peng & Heath, 1996), as well as the reluctance to make relationship-specific investment, make changes in terms of terminated relationships to a common characteristic of the network (Davis, Patterson, & Grazin, 1996; Gurkov, 1996; Hallén & Johanson, 2004a; Johanson, 2004b). Russian firms tend to prefer to terminate relationships rather than changing activities within the relationships (Hallén & Johanson, 2004b, Johanson, 2004a). This development is strengthened by the fact that during the transition knowledge about how to do business becomes obsolete and no longer valid, and firms have to find new ways of doing business, which often also tends to mean finding new customers and suppliers (Johanson, 2004b; Johanson and Johanson, 2006).

8.3. Causality

The Chinese non-linear time perception also relates to Chinese decision making. The business logic is guided by intuition and business is based on feeling. While West European businesspeople try to make decisions rationally, the Chinese decide emotionally. A common metaphor for this strong emotional content of the relationships is the "heart," while the brain symbolizes more the thinking within the less emotional Western business relationships (Wong & Tam, 2000). Business decisions are perceived as emotional because the ethnic Chinese take into consideration their common background of personal and mutual family relationships, which is called *genqing*. Chinese firms are also seen to engage in rather little planning and budgeting, and it is not always clear how the firm works (Ramström, 2005). This could be interpreted as a result of Chinese firms' flexibility, i.e. that they are likely to seize opportunities as they present themselves (Backman, 2001).

West European firms strive both *ex ante* and *ex post* to find the causal relationship between their network structure and their goals. The network is viewed in a strategic perspective in which the firms try to establish a causal link between relationships, profitability and growth. Networks are therefore viewed as a tool for the firm to achieve its goals. Thus, the "head's" ability to calculate dominates how firms view the network. Most West European cultures are performance-oriented, which means that each relationship should be developed and maintained based on rational calculation of its own merits. A relationship has to be evaluated and if it is not viable, it should be terminated. A particular relationship, like any other type of performance, has no value in itself.

"Heart" is an important part of the Russian business culture. Russians are seen as affective and are not afraid to show their feelings. Inter-firm contacts and communication in Russian

Table 1
Aspects of the cognitive substance

Cognitive substance	West European business network	Russian business network	Chinese business network
Self	The firm's identity is based on its own operations	The firm's identity is a product of its own operations in the network	The firm's identity is based on business people's social network
	The firm is perceived to prevail over the network	The firm is perceived as part of a network	The network is perceived to prevail over the firm
	Relationships emanate from the individual firm representing itself	Relationships emanate from the person plus the individual firm	Relationships emanate from a network of persons
Time	Mid-or long-term perspective on business relationships	Short-term perspective on business relationships. Firms try to avoid becoming dependent on specific relationships	Long-term and lasting perspective on relationships and networks
	Relationships and networks undergo recurrent evaluation and incremental changes	Constant changes of turbulent networks	Relationships change intermittently by being terminated or lay dormant for long periods
	Relationships change within networks	Relationships change through being terminated	
Causality	A strategic perspective on relationships makes mutual planning important	Ambition to avoid uncertainty and become dependent on specific relationships make planning important	Little planning is compensated by flexibility
	Decisions based on logical thinking ('Brain')	Decisions are based on an interplay between logical thinking ('Brain') and emotions ('Heart')	Decisions are based on emotions ('Heart')

business networks are often emotional and personal, which especially is the case when the firms have some experience of each other and some confidence is present. On the other hand, planning is viewed as a critical activity and reflects the brain or the cognitive substance. The reason for this is that the risk of being cheated or treated arbitrarily always prevails. Russian business networks are characterized by high uncertainty avoidance, which influences the decisions that are made. How to obtain control and preserve power in the network is what occupies the brain of the typical Russian manager (Holt, Ralston, & Terpstra, 1994)(see Table 1).

9. The normative substance of the Chinese, Russian, and West European business networks

9.1. Achieved versus ascribed status

While the West European business networks are built on mutuality, the interpersonal Chinese networks are built on the basis of persons having some kind of common background or *genqing* (Jansson & Ramström, 2005). Because there are similarities between the exchange partners, they tend to understand, have empathy for, and be more attracted to each other (Lee, Pae, & Wong, 2001). The value behind this common background is ascribed status in the network, while the mutuality of the Western business network is based on achieved status. There are striking similarities between the Chinese *guanxi* network and the Russian *blat* network inclusive of the *nomenklatura* network. Both of these Russian networks are social networks based on favors and gifts, as well as strong personal emotional bonds, through which status is ascribed.

During the centrally-planned era, the *blat* network was an informal barter system, where exchange of favors was built on favors of access to goods and services ("social resourcing") (Michailova & Worm, 2003). As a result of a transition towards a market economy, the *blat* network has changed character from being based on friendship corruption to money corruption, thereby changing the determination of status as more achieved than ascribed. *Blat* has been transformed from being based on moral and ethical considerations to having an explicit financial expression. As *blat* often is illegal in character, it is hidden, and firms and people involved try to keep it closed to outsiders.

The main difference between the present form of *blat* and *guanxi* is that the Chinese business network's status is more ascribed on the basis of family connections, while in the Russian network status is more achieved on the basis of friends, neighbors, and co-workers in addition to the family. Personal relationships are also critical in business relationships as the state and other public institutions are so weak. One major similarity between the Chinese *guanxi* network and the Russian *blat* network is that both are social networks based on social trust, which is strongly related to favors and gifts as well as being long-term and characterized by strong personal and emotional relationships (Michailova & Worm, 2003).

9.2. Inner direction versus outer direction

Major differences between Western culture and Chinese business networks relate to differences between the values of shame and guilt. The values of the former culture have an outer direction, while the latter have an inner direction. A major characteristic of relationships within the Chinese business network is face behavior, which is the major expression of the shame culture. Showing empathy for a partner having a common background, on the other hand, is more inner-directed. It can be applied in several ways in a marketing approach: understanding the other party's personality, position, desires, needs and wants, as well as the other party's business, strengths and weaknesses, and a general appreciation for the other party (Yau, Lee, Chow, Sin, & Tse, 2000). Since actors in the Chinese network are guided by both "empathy" and "face" it means that behavior can be hard to interpret.

While cooperation through relationships in the West European business network largely evolves around efficiency issues, business cooperation in Chinese business networks evolves around harmony as a major value, i.e. the firm's social group behavior is much more emphasized. It contrasts to the more conflict-oriented relationships based on the Christian individual guilt culture of the West European business network.

The rationality behind the relationships differs, being more inner-directed in the West European than in Chinese and Russian networks. In the former case, relations between economic actors are fundamentally competitive, while the rationality for relationships in the Chinese business network is harmony. It is created through the *Yin and Yang* ('both-and') principle of having a balance between major alternatives (Wong & Tam, 2000) rather than choosing the best alternative according to an "either-or" optimization principle.

In Russia, balance and harmony is not that important. Russian business networks are characterized by high outer direction, which conceives of virtue as outside the individual (Hampden-Turner & Trompenaars, 2000). For example, there is tendency towards blaming other firms, discouraging risk taking, while following rules is rewarded. The outer-directed values lead to firms using fate, chance, and contingency with more skill than other firms. Although business strategy is still focused on following external rules, competition is increasing with the development of the market economy. The low need for harmony and balance combined with the tendency to find and blame others is valid for Russian business networks, which often results in conflict in relationships, which, in turn, negatively influences the performance of the relationship (Fey & Beamish, 2000).

9.3. Universalism versus particularism

The West European network is based more on universal principles, where both the network and transactions are anonymous, formal and impersonal (Koopman, 1991; Lindell & Arvonen, 1996; Whitley, 1992a). Contractual and transactional relationships are often formed based on goals, which may be individual, idiosyncratic, and opportunistic (Lasserre & Schutte, 1995). Business networks in the overseas Chinese markets are more particularistic and family-oriented, resulting in relationships emerging from the person and being interpersonal or social.

In contrast to Europe, *genqing* and *renqing* (providing favors) often combine to make the business networks closed or secret rather than open, and therefore more difficult to enter. This low transparency is a reason for the corrupt practices typical of the "crony capitalism" of Southeast Asia. The boundaries between formality and informality are clearer in the West European networks, while they are more blurred in the Chinese.

Boundaries between formality and informality are found also in the Russian business networks. They are often characterized by a combination of desire to formalize in order to avoid uncertainty and informality and a lack of transparency. This paradox is present also in the relationship where, on the one hand, contracts and documents are needed, and on other hand, the firms are aware that no one follows the content of contracts and documents. This means that the contracts and documents often are extremely difficult to understand for those firms that are not active in the network. The networks are often turbulent and loosely structured and terms like opacity, facelessness, and anonymity are commonly used to describe the Russian business networks (Bridgewater, 1999; Johanson, 2004b; Salmi, 2000).

Table 2
Aspects of the normative substance

Normative substance	West European business network	Russian business network	Chinese business network
Achieved versus ascribed status	Status is achieved based on interaction and exchange (mutuality)	Status is either ascribed or achieved based on friends, neighbors and co-workers (blat)	Status is ascribed based on family connections (genqing)
	Relationships build on mutual adaptations and investments to make profit	Exchange of personal favors is a driving force in a more secondary group oriented market	Exchange of personal favors is a driving force in a primary group oriented market
Inner versus outer direction	Behavior is guided by the conscience	Behavior is guided by conscience and fate	Behavior is guided by face
	Strategic orientation is efficiency and competition	Strategic orientation is following external rules	Strategic orientation is harmony and compromise
	Firms typically adopt a confrontational approach ('either/or' principle)	Firms both have a confrontational and social responsibility approach	Firms typically emphasize social values in order to gain social acceptance ('both/and' principle)
Universalism versus particularism	Networks are relatively open	Networks are closed and opaque to outsider firms	Networks are closed and opaque to outsider firms
	Business relationships are relatively impersonal and business takes place between legal entities (firms)	Blurred boundaries exist between formality and informality	Blurred boundaries exist between formality and informality
	Exchanges are usually codified with the help of contracts and other documents	Desire to formalize is to avoid uncertainty and to informalize in order to make business non-transparent	Relationships and networks tend to be informal and personal
Trust	Trust is based on organizational and professional trustworthiness of the firm	Trust is based on organizational and social trustworthiness	Trust is based on individual and social trustworthiness of the employees of the firms
	Trustworthiness is the expected norm based on the legal system	Trustworthiness is not the expected norm	Trustworthiness is the expected norm based on the social network

9.4. Trust

In markets characterized by collectivism such as the Chinese situation, trust building is considered vital to successful relationships (Kumar & Worm, 2003). West Europeans approach an exchange situation by emphasizing formal agreements, while the Chinese seek to determine whether the other party can be trusted or not. The Chinese approach is characterized by the critical importance of individual and social trustworthiness, as compared to organizational and professional trustworthiness in West European business networks (Jansson, 2007b). Trust between firms in the West European networks is organizational and professionally based, and employees enter as buyers and sellers and have a professional role. Trust in the Chinese networks is personal and private, and therefore more individually based.

In the Chinese markets trust cannot be taken for granted, since the legal system is inadequate for underpinning transactions. Therefore transactions come to be guaranteed by personal trust (Kao, 1996; Whitley, 1992a, 1992b). In order to guarantee reliability of exchange processes, trust is of prime importance (Björkman & Kock, 1995). It serves as a way to cope with uncertainty, and brings about stability in relationships (Yau et al., 2000).

In the Russian business network, relationships and trust for individuals weigh higher than legal contracts, but relationship establishment usually starts from an attitude of suspicion. The expectation, inherited from experience, is that one is likely to be cheated (Johanson, 2008). Decades of one-sided plan-governance and centuries of the authoritative state has led to a situation where trust only exists if actors are extensively embedded and interlocked in the same inter-firm or social network. In other words, trust exists if consequences for cheating are perceived as more severe than the eventual rewards for behaving in a trustworthy manner, or as a result of a thorough and long iterative process that starts from suspicion. Evidently, the Russian business networks do not recognize trust as a mechanism for governance of exchange between firms and instead have to rely on other modes of exchange (Blanchard & Kremer 1997)(Table 2).

10. Regulative substance of the Chinese, Russian and West European business networks

10.1. Authority system

It is possible to distinguish between a modern Western authority system and a traditional paternalistic authority system. In the latter, emotional affiliation is low and task control of the subordinate by the superior is high. Status is not only legitimized on formal hierarchical grounds but also contains a cultural or ideological element, based on the traditional family authority. The authority of the superior is much greater in comparison to a modern firm. The paternalistic authority is a relic from a traditional pre-industrial family-centered society. It is personal and the legalization is based on everyday routine and an unchanging past. People obey out of respect for the ruler's traditional status, and decisions are limited by customs and traditions.

Social position is important in the Chinese business network because individuals do not feel comfortable unless they are in a hierarchical relationship with clearly defined roles (Kraar & Shapiro, 1994). In other words, Chinese business networks are hierarchically structured, i.e. following the hierarchy of the family firm. Relationships in a person's network are therefore dyadic and hierarchical as well as normatively defined. This is in sharp contrast to Western Europe where business networks are more lateral, and the social position of a business partner has little relevance to the initiation or performance of the business relationship. Chinese business networks are best characterized as authoritarian and assertive, in particular with non-family members.

The Russian authority pattern also falls within this latter category. The regulative structure in the planned economy in the Soviet Union did not provide any incentives for firms to legally compete or to co-operate (Mattsson, 1993). In other words, the institutions did not promote relationships that would have developed through a mutual exchange and adaptation process. Relationships between firms were initiated and governed through the authority planning system (Johanson, 2004b). However, the official authority system is usually not trusted by business managers, who prefer to solve conflicts and disputes through their personal relations rather than by relying on the legal system (Hendley, 1997).

The West European business network is characterized by formal or hierarchical authority. The right to a competence field is determined by the capacity of a person within this field and based on integrity and fairness, involving acting in an upright, considered manner according to invariant, impersonal rules. Both emotional affiliation and task control is low. Social interaction is characterized by personal power of initiative and not by obedience. Authority is often delegated down the organization and rests on formal rules and procedures. Authority in Western organizations is legitimized by impersonal laws and rules, which are based on agreed principles of rationality. Authority is limited to areas of competence defined by these laws. The right to a competence field is not as in traditional societies considered to be the property of a person's family.

10.2. Sanction system

An important aspect of control in the Chinese business network is the concept of face. Face is also considered as an informal sanction mechanism or custom. Overall, the Chinese business network does not rely on formal or written control systems. It is governed by relational norms rather than contractual obligations. Personal and mutual relationships are preferred to formal relationships, because they offer more flexibility (Michailova & Worm, 2003). For the Chinese, verbal commitments are taken more seriously than formal ones (Kumar & Worm, 2003). Ethnic Chinese firms are unlikely to take another firm to court. Instead, violations can lead to the banishment of the offender from society as a whole. Becoming blacklisted in this way is far worse than being sued since the entire network will refrain from doing business with the party. Such considerations usually outweigh the need for disregarding institutional norms and values (Ramström, 2005), i.e. the sanction system is based on collective sanctions (Michailova & Worm, 2003).

Sanctions in Western Europe are mainly formal, in China informal, and in Russia a mix of both, depending on whether the

Table 3
Aspects of the regulative substance

Regulative substance	West European business network	Russian business network	Chinese business network
Authority system	Lateral networks and decentralized decision making.	Paternalistic networks and centralized decision-making	Paternalistic networks and centralized decision-making
	The authority of the firm in the network is based on its competence and performance.	The authority of the firm in the network is a result of the firm's business people's social relationships	The authority of the firm in the network is a result of the firm's business people's social relationships.
	The authority system is often formalized	The authority system is formalized	The authority system is not formalized
Sanction system	Sanctions are based on formal conventions (laws)	Sanctions are based on informal conventions (customs)	Sanctions are based on informal conventions ('face')
	Actors are encouraged and supported, incentives guide action	Actors are monitored and controlled, fear of punishment guides action	Actors are monitored and controlled, fear of punishment guides action

context relates to firms or the *blat* network, where firms frequently refer to the formal sanction system, but where much of the business in practice is guided by informal conventions. In Russia, a collectivist world view (where people think that it is important to belong to groups, and where they avoid standing out) leads to the risk of employees being punished for their own initiatives (Hofstede, 1994). Controlling and monitoring business partners is the way business is expected to be conducted in Russia.

Authority and responsibility in European markets are well defined and often legalistic since they are formulated in text. These formal sanctions are based on a well-developed legal system, where rules apply equally to all. There is a preference for written, rather than oral, contracts; contracts signed by individuals are legally binding, and breach of contract results in legal sanctions (Buuri & Ratschinsky, 2000). Private firms build on and are protected by a strong legal system. There is therefore no need for sanctions to work through social relationships in order to guarantee contracts and commitments as in China and Russia, where the legal framework is still weak. Paternalistic assertive authority does in the Chinese business networks what law does in the West (Redding, 1995)(see Table 3).

11. Conclusions and managerial implications

Firms in networks are institutionalized actors. Through various cognitive, normative, and regulative substances of institutions, firms are socialized into networks. In accordance with the normative substance, firms take on roles in relation to other firms. According to the cognitive substance, they develop a shared understanding by having come to accept a shared definition of social reality through institutionalization of common beliefs. In accordance with the regulative substance, the firms' behavior is promoted or restricted as a result of various norms and values. Business practices thereby acquire a rule-like status that renders them persistent and highly resistant to change. Institutions influence how well firms perform functions within the network, e.g. how well relationships and networks give the firm a competitive advantage. They reduce costs and are arenas for production of value. Given this background, it follows that the more difficult it is to establish and maintain a relationship, the bigger the advantage of a well-functioning relationship.

The analysis shows that institutions influence business networks in different ways. Networks have various characteristics, which call for different actions. Based on the analysis, three major aspects are worth considering as critical when establishing and maintaining relationships with firms in the Chinese, Russian, and West European business networks: namely, patience, suspicion, and performance.

Patience is the degree of preparedness and propensity to wait for a positive result of an investment. It is related to time factors such as uncertainty, which is traded off against the normative contents, e.g. remaining loyal to a relationship when it is undergoing difficulties. In the West European business network patience is at a medium level, since relationships undergo recurrent evaluation and incremental changes. Uncertainty is gradually reduced and trust built in the mid-or long-term perspective as a result of satisfaction and positive outcomes from an iterative process of doing business in the past.

However, patience is high in the Chinese business network, since it is characterized by long-term orientation, often combined with weak, unpredictable, and non-transparent institutions. Western firms are expected to make extensive investments in the Chinese business network and demonstrate commitment before they can be accepted as legitimate counterparts. Firms have to earn their trust, which means that demonstration of commitment is instrumental for development of trust.

Patience is concluded to be low in Russian business networks due to their short-term orientation. Firms do not have the time to wait. Relationships have to produce results instantly and there are no 'honeymoons' in newly-established relationships. Demonstrating commitment and trusting others are perceived as risky and reserved for specific firms (see Table 4).

Patience is closely related to *suspicion* through the normative aspect of trust. Being suspicious is a feeling that something is wrong or something undesirable is going to happen, for instance being cheated by other firms or expecting that other firms will not live up to their promises. This leads to unwillingness to rely on others and therefore firms are reluctant to make investment in network relationships. Firms will also prefer to control and monitor firms they have relationships with.

In the West European business network, the starting point in establishing relationships is the assumption that the counterpart

Table 4
The relative importance of three aspects of strategy

	West European business network	Russian business network	Chinese business network
Patience	Medium	Low	High
Suspicion	Low	High	Medium
Performance	High	Medium	Medium

is supposed to be honest, meaning low degree of suspicion and even an initial "honeymoon" phase. Still, during relationship building firms must demonstrate commitment, support, and competence to perform. More stable and predictable formal institutions, in terms of legislation, contribute to the relatively low degree of suspicion.

Suspicion in the Chinese business network is classified as medium, since it is divided and situation-dependent. Previous social relationships significantly reduce suspicion among firms, more than in the West European business network. This is especially evident as a high degree of suspicion when relationships are being established. Suspicion is mainly reduced through demonstrating commitment to the social relationship.

In Russian business networks there seems to be a constant suspicion, irrespective of the stage of the relationship; hence, the degree of suspicion is considered high. Throughout the relationships, firms expect that they will be cheated and not supported. However, previous social relationships reduce suspicion, although not to the same degree as in the Chinese business network. Suspicion also seems to prevail in mature and developed relationships. An indicator of this is that termination of relationships is common. Russian firms try to control and dominate important relationships.

Performance is about accomplishing various activities and operations in the network. In order to perform them, competence of the firms involved is needed, which means that the quality of performance of the activities and operations in the relationship influences how the counterparts perceive the relationship. The analysis demonstrates that the importance of performance is perceived differently in the networks and that differences relate to the degree of patience and suspicion.

Performance is highly valued in West European networks because relationships essentially exist in order to perform business among firms. Relationships are continuously re-evaluated and if they are not profitable – at least in a mid-term perspective – they should be terminated. A relationship can be established through social relationships, but in the long term it cannot be saved by an existing social relationship if it does not perform in line with the firms' objectives.

Performance cannot be neglected in the Chinese and Russian business networks, but compared to the West European business network, the degree of importance of performance is medium. There are several reasons for this. Chinese business relationships are personal, where balance and harmony are important ("Yin–Yang" management, according to Jansson, 1994b).

This means that performance is to be balanced against social issues. The situation in Russia is complicated. On the one hand, Russian firms appreciate control and stability, but, on the other hand, they often terminate relationships. This can be viewed as a result of relationships not performing in accordance with the expectations. But it can also be a result of weak relationships, since firms tend to be reluctant to integrate activities and make investments in specific relationships. Interdependence is low, which makes relationships easy to terminate. We therefore suggest that the importance of performance is at a medium level in the Russian business network.

The foregoing discussion clearly indicates two things. *Firstly,* firms coming from one business network and doing business with firms belonging to any of the other two networks in this study have to be aware of differences in their institutional backgrounds and the influence on business. Firms are therefore likely to be more successful if they adapt their behavior to the institutional contents of the unfamiliar network and the specific institutions in that specific local market. *Secondly*, the differences call for more research on how institutions influence business networks and how business networks are constituted in different markets, since networks seem to be heterogeneous and fulfilling different functions, depending on the institutions.

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