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The Darker Side of Social Networks in Transforming Economies: Corrupt Exchange in Chinese *Guanxi* and Russian *Blat/Svyazi*

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ABSTRACT This article addresses corruption as a negative practice displaying the 'darker side' of social capital in Chinese *guanxi* and Russian *blat/svyazi* networks. It presents a conceptual framework integrating several research streams to establish a conceptual linkage between social network characteristics and three forms of corruption between business persons and public officials: cronyism, bribery, and extortion. We argue that the forms of corruption in a society are determined by the nature of social network ties and their underlying morality, with particularistic and general trust being key factors. Our framework depicts networks as three concentric circles representing three types of corruption resulting from their corresponding types of reciprocity: open, closed, and negative. We then apply the framework to the practice of *guanxi* in China and *blat/svyazi* in Russia. We propose that different network characteristics and different forms of corruption may help explain what we label the 'China-Russia paradox' of why corruption and high economic growth have co-existed in China, at least in the short term, but less so in Russia. We conclude with ethical and legal implications for doing business in those two transforming economies and offer suggestions for future research.

KEYWORDS China, corruption, reciprocity, Russia, social networks, trust

INTRODUCTION

Network-based exchange based on personal trust is one of the prevailing characteristics of business culture in transforming economies. Social networks are commonly considered as umbrellas under which non-market transactions such as exchange of favors take place. These networks, such as *guanxi* in China or *blat/svyazi*[1] in Russia, are on the one hand rooted in the cultural tradition of the respective countries, and on the other, their use was necessitated by the need for coping with the economy of shortages in those centrally planned economies (Hsu, 2005).

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Guanxi and *blat/svyazi* as social networking practices, particularly in their historical contexts and in everyday life under communist rule in China and the Soviet Union, have been extensively documented (see, for example, Chen, Chen, & Huang, 2013, on *guanxi*; Lovell, Ledeneva, & Rogachevskii, 2000, on *blat*). After the 1990s market reforms in both countries, management scholars became interested in the ways in which market reforms changed the nature and use of *guanxi* and *blat/svyazi* in business (e.g., Batjargal, 2007; Hsu, 2005; Michailova & Worm, 2003). While these networks have been found to share common features during the time of the centrally planned economies, they later developed in different directions in the era of market reforms (Hsu, 2005; Michailova & Worm, 2003).

Some scholars have argued that the Soviet practice of *blat* would have transformed into pure corruption after market reforms (Hsu, 2005), or become increasingly monetarized by losing its original function as a friendly exchange of favors (Ledeneva, 2009; Michailova & Worm, 2003; see also Williams & Onoshchenko, 2015). Still others argue that the Soviet practice of *blat* would have been replaced with the more neutral, market-based networking practice of *svyazi* that literally means 'connections' (Batjargal, 2007). In contrast, the literature suggests that the Chinese practice of *guanxi* would have continued to be a beneficial tool for networking, also in the socialist market economy (Hsu, 2005; Ledeneva, 2008), although part of *guanxi* networking has been seen as having a corrupt nature as well (Braendle, Gasser, & Noll, 2005; Lovett, Simmons, & Kali, 1999; Millington, Eberhardt, & Wilkinson, 2005; Su & Littlefield, 2001).

Scholars have suggested that the different development of *guanxi* and *blat/svyazi* in the era of market reforms is associated with their underlying moralities, including the nature of trust in society (Hsu, 2005; Ledeneva, 2008; Michailova & Worm, 2003). Nevertheless, we argue that research on *guanxi* and *blat/svyazi* has mainly theorized them as neutral or positive networking practices, and not clearly explained how their underlying moralities may lead to negative practices such as nepotism or cronyism displaying the 'darker side' of social capital (Williams & Onoshchenko, 2015).

Researchers have either mentioned in passing, corruption as being part of *guanxi* and *blat/svyazi* (e.g., Berger, Herstein, Silbiger, & Barnes, 2017; Ledeneva, 2008; Michailova & Worm, 2003), or limited their treatment of corruption to one specific form such as elite exchange in Russia (Hsu, 2005) or gift-giving and bribery in business relations in China (e.g., Su & Littlefield, 2001; Millington et al., 2005). Taking the advances in corruption research in a more fine-grained direction (see e.g., Cuervo-Cazurra, 2016), we provide a more detailed analysis of various types of corruption hosted by *guanxi* and *blat/svyazi* networks. Specifically, we focus on the underlying moralities of *guanxi* and *blat/svyazi* as decisive factors that help explain the different network dynamics, including those that facilitate corruption.

This article is motivated by the above-mentioned gaps in the academic literature, as well as by our search for a theoretical explanation for the different corruption patterns that we have observed while doing fieldwork in China and Russia for

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the past several decades. In particular, our confidential discussions with foreign executives have revealed that while networking practices are essential for doing business in both countries, in Russia, corruption seems to have a more negative character and detrimental impact on businesses than in China. Our observations are supported by findings of empirical studies that describe Russian corruption as more disorganized and unpredictable than Chinese corruption (Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003; Larsson, 2006).

Thus, we address the following research question: How do network characteristics of *guanxi* and *blat/svyazi* relate to different types of corruption? We start with the argument that the interaction of social networks and corruption is contingent on the institutional environment (e.g., Choi, 2007; Oldenburg, 1987; Scott, 1972), which undoubtedly differs in China and Russia. Specifically, we view corruption as a form of reciprocal exchange that takes place in social networks (Warburton, 2013), which are based on broader structures of a country's culture and society. These structures include the nature of morality and general trust which serve as foundations for relationships in different layers of networks.

To establish a conceptual linkage between social network characteristics and corruption, we draw upon theories representing different research traditions, including economic anthropology, corruption research, and social network analysis. We first illustrate the social network structure as consisting of three circles of exchange, and apply the concepts of social distance (Sahlins, 1974), as well as different types of reciprocity (Graeber, 2001; Sahlins, 1974) rooted in economic anthropology. Then we map three categories of corruption onto these three circles of exchange. Whereas the inner circle is dominated by cronyism, 'illegal favors done for loyalty or kinship' (Scott, 1967: 502), we posit that the most characteristic types of corruption for the intermediate and outer circles are bribery and extortion (Lindgren, 1993), respectively. To find a theoretical explanation for the different types of corruption in social networks, we follow Li (2007a, 2007b) and argue that different forms of reciprocity are associated with different types of social ties (sentimental versus instrumental), which are rooted in the moral norms of the society in which the network is embedded. These moral norms include the perceptions towards other members of the society beyond the boundaries of the network and underlie the nature of corrupt behavior of network members.

We apply our conceptual framework to *guanxi* and *blat/svyazi* and contend that there are fundamental differences between the underlying moralities and thus the forms of reciprocal exchange in these networks. We argue that in China, *guanxi* networks exhibit a gateway characteristic (Gao, Knight, & Ballantyne, 2012) that allows both sentimental ties and closed reciprocity to expand to individuals in the outer circles of the network. As a consequence, corruption in *guanxi* networks is likely to have a mutually beneficial character that takes the forms of cronyism and bribery. At the same time, individuals in the outer circle can avoid being subjected to one-sided corruption in the form of extortion by being treated as prospective members of the inner circles.

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In contrast, Russian *blat/svyazi* networks tend to be exclusive and have different moral rules for members and non-members (McCarthy & Puffer, 2008). The ties beyond the inner circle are purely instrumental, whereas closed reciprocity is strictly limited to the outer border of the intermediate circle. Hence, those in the outer circle are likely treated with negative reciprocity that transforms into extortion-type corruption. Thus, social or network reciprocity could potentially affect decisions about the type of corruption that a society might consider acceptable and even ethical.

This article extends comparative research on *guanxi* and *blat/svyazi* networks (Batjargal, 2007; Hsu, 2005; Ledeneva, 2008; McCarthy, Puffer, Dunlap, & Jaeger, 2012; Michailova & Worm, 2003) by first conceptually unpacking how their underlying moralities, including trust, define the types of reciprocal exchange taking place in these networks. Second, we provide a fine-grained conceptualization of types of corruption as embedded in *guanxi* and *blat/svyazi* networks.

In addition to its theoretical contribution to the study of *guanxi* and *blat/svyazi*, our analysis has broader implications. The linkage that we establish between different network characteristics and different forms of corruption may help explain what we label the 'China-Russia paradox', i.e., why corruption and high economic growth can co-exist in China at least in the short term (Wedeman, 2002) in contrast to Russia, where corruption has been a serious deterrent to economic growth (Larsson, 2006; Levin & Satarov, 2013). We maintain that this paradox is due to not only different types of market reforms and transition paths as prior research (Larsson, 2006; Sun, 1999; Wedeman, 2012) suggests, but also due to differences in the societal and cultural context. Our conceptual analysis suggests that the benefits of networks and trust that prevailed in those centrally planned economies can eventually evolve into misallocation of resources during market reforms. Such misallocation takes place both in China and Russia but is particularly striking in Russia due to the prevalence of extortion type of corrupt exchange facilitated by the *blat/svyazi* practice.

The remainder of the article is organized as follows. We start by reviewing literature on types of corruption and on *guanxi* and *blat/svyazi* as networks of exchange. We then construct a conceptual framework to establish linkages between the structure of social networks, various types of corruption, and wider societal norms, and their manifestation in *guanxi* and *blat/svyazi* networks. Following a discussion section, we conclude with ethical and legal implications for doing business in China and in Russia.

CONCEPTUALIZING DIFFERENT TYPES OF CORRUPT EXCHANGE

Corruption is a multifaceted and multidimensional phenomenon, and its definitions vary according to the preferred view on the topic (Cuervo-Cazurra, 2016). Our treatment of corruption builds on its broad definition as 'the abuse of

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entrusted power for private gain' (Transparency International, 2016), which may refer to both public and private sector corruption (Cuervo-Cazurra, 2016). From the perspective of international management research, most relevant categories of corruption are public sector corruption, where transactions occur between government officials and private businesses, and private sector corruption between businesses. The focus of our analysis is on public sector corruption, as it is legally sanctioned in practically all countries, unlike private sector corruption that may be considered as an acceptable business practice in some countries (McCarthy et al., 2012).

There are several alternative typologies of corruption, which in addition to the public-private distinction, classify corruption into petty versus grand (Elliot, 1997), organized versus disorganized (Shleifer & Vishny, 1993; see also Doh et al., 2003 on arbitrariness of corruption), and corruption with or without theft (Shleifer & Vishny, 1993). In this article, the most relevant criterion for classifying different forms of corruption is the sidedness of exchange, i.e., whether the corrupt transaction results in mutual or one-way benefit. Wedeman (2012) notes that corruption involving public officials and private interests may consist of a mutually beneficial exchange in which the private party receives some benefit in return for engaging in a corrupt act. For example, a firm might receive a reduced customs tariff in exchange for a bribe, an exchange referred to as subversion (Beenstock, 1979: 16). Other labels include dividend-collecting (Wedeman, 1997: 459), profit-sharing (Sun, 1999: 12), efficiency-enhancing (Li & Wu, 2010: 148), and collusive corruption (Sequeira & Djankov, 2014: 285). Such mutually beneficial corruption may be initiated either by the private party as the supplier or the public official as the demander of the bribe. Similarly, the first mover in a corrupt exchange in the form of cronyism may be either of the parties. (See, for example Rose-Ackerman, 1999).

The corrupt exchange may, however, benefit only the dishonest state official (Rose-Ackerman, 1999). Such forms of corruption are known as predatory corruption 'in which the bribe is an extra on the top of the official price of the public good in question' (Li & Wu, 2010: 149). It is also called extortionary (Beenstock, 1979: 18), coercive (Sequeira & Djankov, 2014: 285), or non-collusive (Rose-Ackerman, 1999: 15–17) corruption. In these situations, a public official always initiates the corrupt transaction and coerces a private party, for example, to pay a fee to gain access to a public service to which the latter was already entitled.

We build on these typologies and categorize corruption in three forms: cronyism, bribery, and extortion. From the legal perspective, bribery and extortion are debated, as they are difficult to disentangle (see, for example, Ayres, 1997; Lindgren, 1993). We follow Khalil, Lawarrée, and Yun (2010: 180) and distinguish between bribery and extortion on the basis of whether the corrupt behavior helps or hurts the business enterprise, as we are interested in the 'sidedness' of the corrupt exchange. We view cronyism and bribery as two-sided transactions in which both parties benefit. Extortion, in contrast, represents a one-sided transaction in which

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the receiver is the only party benefiting. Hence, we extend existing micro-level typologies of corruption, which typically do not include non-monetary exchange but instead treat cronyism and corruption as separate concepts. We concur with Khatri, Tsang, and Begley (2006) and view cronyism as a subset of corruption.

GUANXI AND *BLAT/SVYAZI* AS SOCIAL NETWORKS

In this section we review the literature on *guanxi* and *blat/svyazi*, pointing to their historical and societal origins, functions, and development during the period of economic transformation from a centrally planned system to a more market-oriented one.

Social Network Characteristics of *Guanxi*

Guanxi can be broadly defined as a system of personal connections that carry long-term social obligations (Park & Luo, 2001), and also as the presence of direct, personalized ties between individuals (Tsui & Farh, 1997). A Confucian perspective involves a relational view referring to 'a social, organizational, and moral system in which personal and small group relationships take precedence over both the needs and interests of the individual person and those of general and impersonal relationships found in large organizations and communities' (Chen et al., 2013: 177). *Guanxi* is rooted in the Confucian moral and political system, where the central institutions were the patriarchal state and the patriarchal family or clan. In other words, the rules of the family were extended to the society as a whole (He, 2011), but with varying degrees of personal obligation and affection. Greatest obligation and affection was based on kinship, but also other members of the society had the potential to become pseudo-kin through *guanxi* gift exchange (Bian, 2006). This opportunity to becoming 'one of us' is illustrated in the etymological origin of the word *guanxi* in the Chinese language, where *guan* means gate, and *xi* means special connections among people who passed through the gate (Gao et al., 2012).

After the 1949 communist revolution, *guanxi* networks expanded greatly due to economic necessity. *Guanxi* could be used to build enough trust to allow business transactions to succeed despite the inefficiencies of the centrally planned economy, in essence, a form of capitalism without contracts. Since people could obtain favors from 'a friend of a friend of a friend', they could reach out to a substantial population of useful contacts (Hsu, 2005). Additionally, although it has been debated whether China can be considered as a society of high general trust or as a society where strangers are perceived with distrust[2], researchers have identified a mechanism where trust of 'strangers' is established through trust of 'familiar persons' (Luo, 2005). This points to the central role of 'bridge' individuals who connect different *guanxi* networks (Luo, 2005). Chinese are seen as being open to establish trust-based relationships and build *guanxi* relations with strangers as

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long as there is a common interest (Chen & Chen, 2004). Hence, interpersonal trust has a 'transferable' nature (Batjargal, 2007). On the other hand, recent research has shown that the general principles of trust and brokerage are relatively similar in *guanxi* networks and social networks in the West (Burt & Burzynska, 2017). Similarly, the frequency and common history of interaction are important determinants of building trust in *guanxi* networks (Burt & Opper, 2017; Chen & Chen, 2004).

From the international management perspective, it has been said that 'entering China's markets amounts to entering a huge web of *guanxi*' (Su & Littlefield, 2001: 199). One dimension of this web is business to government *guanxi* that has been condemned as a main source of bribery (Braendle et al., 2005). The culture of gift giving, which is an important means for building trust and nurturing *guanxi* relationships, provides a context in which bribery can be undertaken under the umbrella of *guanxi* (Lovett et al., 1999), since such bribery follows the principle of reciprocity which is at the core of *guanxi*. However, there is a clear distinction between gift giving within *guanxi* that is concerned with building relationships, and bribery which involves illicit transactions (Steidlmeier, 1999). Foreign executives' accounts of corruption in China have demonstrated its embeddedness in local business networks (Karhunen & Kosonen, 2015), in which foreign firms may opt either to participate or stay out.

Social Network Characteristics of *Blat/Svyazi*

Blat – when understood broadly as an unofficial system of exchange of goods and services based on principles of reciprocity and sociability – has existed in Russia since tsarist times preceding the communist era (Fitzpatrick, 2000: 166). The word *blat*, however, originates from the criminal jargon of the pre-revolutionary era and it refers to petty criminal activity such as minor theft. The old word developed a new meaning in the very beginning of the socialist era. It was adopted to everyday use to refer to a personalized exchange of favors to cope with shortages of the socialist system. *Blat* was to a large extent unofficial, and its use was banned from the official discourse by authorities. As a practice it was also often illegal, as it included activities such as black-market trade. It was also against the socialist ideology, as it promoted individual's interest against the public interest (Ledeneva, 1998).

Some scholars argue that *blat* as a term would have become obsolete and should be replaced with the more neutral term *svyazi*, literally meaning 'connections' (Batjargal, 2007). Others point that the terms *blat* and *ZIS* (*znakomstva i svyazi*, acquaintances and connections) were used in parallel already in the Soviet era and initially refer to the same practice that still persists (Ledeneva, 1998, 2009). In this article, we concur with McCarthy et al. (2012) and use the formulation *blat/svyazi* in reference to the post-communist networking practice in Russia.

During Soviet times, *blat* was a necessary activity for Russians due to the shortage economy involving restricted access to goods, services, information, and other

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desired resources. Those engaged in *blat* were members of tightly knit communities who shared responsibility for the actions of others (Raiklin, 2009). Belonging to the group meant being bonded to the other group members, and generally avoiding extending one's own network through bridging it to other networks as in *guanxi*. The members of a network knew not only with whom to exchange, but also whom to avoid (Jones, Hesterly, & Borgatti, 1997).

Similar to *guanxi*, the *blat s*ystem emerged from economic necessity, but not from a shared moral or value system such as *guanxi*. Mikheyev (1987) argues that although Russia is often considered to be a collectivist culture, collectivism in Russia is not characteristic to the national mentality as in, for example, Asian countries, but was imposed by the economic system. Mikheyev continues that in general, Russians feel comfortable with people around them only if they are 'right' people, that is, friends or relatives. In the Soviet shortage economy, however, the support of others became a crucial necessity for survival. As a result, the community tended to fragment into numerous groups and subgroups that provided mutual support but were in constant competition with each other.

Without an integral moral structure, the lesson of *blat* for post-communist Russians seemed to be that one ought to secure personal benefits for members of one's circle at the expense of the state and those outside of the circle (Hsu, 2005). Hence, some scholars have argued that the *blat* would have transformed into pure corruption after market reforms (Hsu, 2005), or became increasingly monetarized (Ledeneva, 2009; Michailova & Worm, 2003; see also Williams & Onoshchenko, 2015). Currently, the most prominent *blat/svyazi* networks are considered to be those of 'elite exchange' between powerful business persons and public authorities (Frye, 2002).

From the perspective of trust, the closed nature of *blat/svyazi* networks reflects the Russian cultural traditions that are said to have produced an inclination to distrust individuals, groups, and organizations outside one's personal relationships (Ayios, 2004: 14), resulting in a 'low trust society' (Kuznetsov & Kuznetsova, 2008). Distrust of political institutions was exacerbated in the Soviet period when the totalitarian state stifled the emergence of a separate civil sphere (Shlapentokh, 1989). In addition, observers of Soviet society maintain that there was a high level of suspiciousness and mistrust among the Soviet people themselves as well (Mikheyev, 1987). Thus, in the Soviet era *blat* supported the norm of general distrust rather than nurturing general trust of those outside one's immediate network.

Without a way to build trust or extend networks, Russians have generally been seen as retreating into defensive attitudes and behaviors, engaging in predatory behavior against those outside their small circles of friends (Hsu, 2005). Even in recent times, although Russian business people might generally seek honesty in transactions, in the absence of a network relationship, they still tend to mistrust each other due to a business environment fraught with breaches of contract and little transparency (Radaev, 2004). The hostile attitude towards 'outsiders' may

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explain why many foreign firms operating in Russia view corruption not as a 'local' phenomenon as in China, but as part of the business environment that foreigners are also subject to in the form of extortion (e.g., Karhunen & Kosonen, 2015).

Comparing *Guanxi* and *Blat/Svyazi*

We conclude the discussion on *guanxi* and *blat* by comparing the antecedents and functioning of these networks (Table 1).

In sum, existing research has identified a number of common characteristics between Chinese *guanxi* and Russian *blat/svyazi* networks (Hsu, 2005; Ledeneva, 2008; McCarthy et al., 2012; Michailova & Worm, 2003). Both can be viewed as social resources based on continuity of relationships and trust (Michailova & Worm, 2003), and both networking practices were necessitated by the need for coping with the flaws of the centrally planned economy (Hsu, 2005). At the same time, there are important differences. Whereas *guanxi* has long historical roots and is based on the need to facilitate private economic exchange, *blat/svyazi* traces its origins to the early years of the centrally planned economy and its role was to facilitate individuals' access to goods and services in the shortage economy. Moreover, the exchange of favors in the heart of both *guanxi* and *blat/svyazi* has a different basis. Whereas the exchange of favors in *guanxi* is based on moral and social obligation, in *blat/svyazi* it is more instrumental and based on expected benefit and reciprocity. The two networks also have different bases for building trust and different dynamics. Friendship and family ties are at the core of both networks, but in *guanxi* networks trust can also be built through common interest and frequent interaction, and therefore, they are open to expansion via trusted brokers. *Blat/svyazi* networks, in contrast. reflect the general distrust characteristic

Table 1. Antecedents and functioning of *guanxi* and *blat/svyazi*

	Guanxi	*Blat/svyazi*
Historical origins	The need of individuals, families, and businesses to survive the unpredictability and arbitrariness of emperors and their mandarins in ancient China	Motivated by the needs of personal consumption in the conditions of shortages and a state system of privileges in the Soviet planned economy
Function in the socialist economy	Enabling 'capitalism without contracts'	Means for surviving in the economy of shortages
Basis of the exchange	Moral and social obligation	Mutual benefit and reciprocity of exchange
Bases for building trust	Friendship or family ties, common interest, frequency of interaction	Friendship or family ties
Network dynamics	Open to expansion via trusted brokers	Competition between closed networks

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to Soviet society, where only true friends can be trusted completely, but partnership and cooperation are qualities too unreliable to build a long-term relationship upon (Mikheyev, 1987). Hence, Soviet network-based society was characterized as competing networks of mutual support (Mikheyev, 1987) rather than a 'huge web of *guanxi*' (Su & Littlefield, 2001: 199) connecting different networks through brokers.

We maintain that these differences help explain why *guanxi* and *blat/svyazi* have developed differently during market reforms (Hsu, 2005; Michailova & Worm, 2003). *Guanxi* has been seen as continuing to be a beneficial tool for networking, and also as a way to cope with institutional voids (Hsu, 2005; Ledeneva, 2008). In contrast, scholars have argued that the Soviet *blat/svyazi* practice ceased to retain its original meaning by either transforming into corruption and elite exchange (Hsu, 2005), or having developed into more market-like and impersonalized (Batjargal, 2007) or monetary (Michailova & Worm, 2003) forms of network exchange. We will next elaborate on this argument and establish a theoretical linkage between underlying moralities and the nature of trust and corruption in *guanxi* and *blat/svyazi* networks.

CORRUPTION AND SOCIAL NETWORK CHARACTERISTICS OF *GUANXI* AND *BLAT/SVYAZI*

To establish a conceptual linkage between social network characteristics and corruption, we draw upon theories representing different research traditions, including economic anthropology, corruption research, and social network analysis. Figure 1 depicts our conceptual framework based on these theories.

Our framework first depicts the social network structure as consisting of three circles of exchange, and incorporates social distance (Sahlins, 1974) and different types of reciprocity (Graeber, 2001; Sahlins, 1974) rooted in economic anthropology. Next, we map three categories of corruption onto these three circles of exchange. Whereas the inner circle is dominated by cronyism, we posit that the most characteristic types of corruption for the intermediate and outer circles are bribery and extortion (Lindgren, 1993), respectively. We follow Li (2007a, 2007b) and argue that different forms of reciprocity are associated with different types of social ties, sentimental or instrumental, which are rooted in the moral norms of the society in which the network is embedded. These moral norms include perceptions towards other members of the society beyond the boundaries of the network and underlie the nature of corrupt behavior of network members. In the next sections we elaborate on the different components of our framework and apply them to *guanxi* and *blat/svyazi*.

Social Distance, Reciprocity, and Corrupt Exchange

Social distance and reciprocity help explain how the network position of a private business person and his or her social closeness to a public-sector official defines

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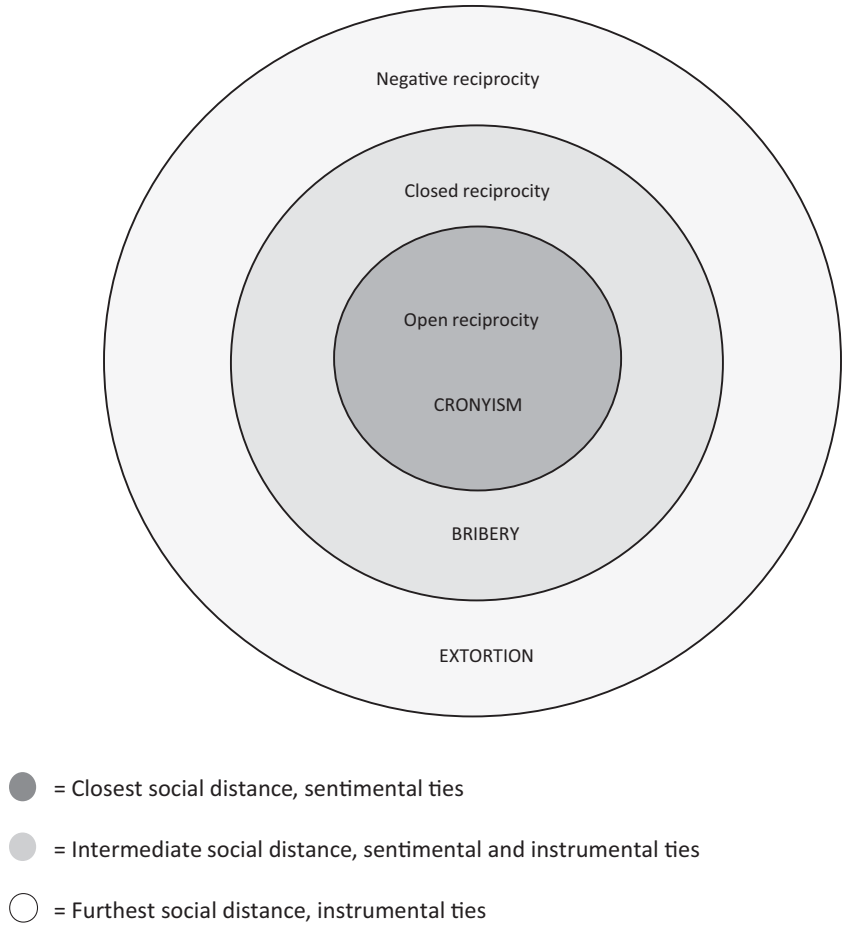

Figure 1. Forms of reciprocity of exchange and social ties, and dominant forms of corruption in social networks

the nature of the corrupt exchange. The concept of social distance was introduced by economic anthropologist Marshall Sahlins (1974) to explain different forms of reciprocal relationships in tribal societies.

Reciprocity refers to the informal exchange of goods and services, whereas social distance is defined in terms of how far from the kinship center an exchange occurs. We consider these concepts as being particularly useful for studying relationship-based exchange in modern societies as well, since reciprocity has been recognized as being a universal phenomenon (Blau, 1964). Reciprocity is considered a key principle of how business networks function worldwide (Schonsheck, 2000), including market-based societies (e.g., Graeber, 2001). In transforming economies such as China and Russia, exchange based on personal reciprocity is particularly important, since contract-based exchange mechanisms are not yet functioning credibly due to flaws in formal institutions. We adopt the terms open and closed reciprocity from Graeber (2001) and negative reciprocity from Sahlins (1974).

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Figure 1 depicts how the reciprocal nature of the relationship between a corrupt official and a business person, based on social distance, explains the type of corrupt exchange. We distinguish between three types of corruption: cronyism, bribery, and extortion. The first two are two-sided transactions in which both parties benefit. Cronyism occurs in the inner circle with the closest social distance and is based on open reciprocity. Hence, the government official's benefit is not immediate, but implies an anticipated favor in the future. Bribery in the intermediate circle, in contrast, is a mutually beneficial transaction based on closed reciprocity and immediate benefit for the government official in the form of a bribe. Finally, corrupt exchange within the outer circle is extortion based on negative reciprocity, where the only beneficiary is the corrupt official. In the following sections we discuss the three circles in more detail, including their connection to *guanxi* and *blat/svyazi* networks.

Open Reciprocity and Cronyism

The inner circle in Figure 1 is characterized by open reciprocity (Graeber, 2001), which does not entail the expectation of immediate reciprocity on the part of the giver. That kind of exchange includes favors among members of specific networks consisting of individuals with strong ties based on kinship, friendship, ethnicity, religion, school, workplace, mutual interest, or another grouping category (Khatri et al., 2006). Thus, the government official and the business person may have such ties based on, for example, university studies or former employment history. In the *guanxi* literature such ties refer to a specific category of *guanxi* based on common social identity, anchored with clear social or even physical boundaries (Chen & Chen, 2004). Similarly, family and kinship ties are an important condition for favor exchange in *blat/svyazi* networks (Ledeneva, 1998).

Favors do not involve bribery nor even immediate reciprocity (Luo, 2005), but may be seen as unethical in some cultures or contexts because favors can create an unfair advantage for some individuals over others (McCarthy et al., 2012). Therefore, it is important to make a distinction between favoritism as a broader concept and cronyism as its corrupt form. Favoritism is not always related to corruption, as it may constitute an exchange of private favors in a purely private domain without public power involved. When public power (i.e., the duty for public interest) is at stake, favoritism takes the form of cronyism and is judged as corruption (Khatri et al., 2006). Thus, favors become corruption when public officials breach their duty by giving preferential treatment to the recipient of the favor.

Accounts of corruption in China (e.g., Deng, Zhang, & Leverenz, 2010; Wedeman, 2012) provide examples of cronyism. Public officials' schemes to purchase land for the state at low prices and then invite relatives to act as land brokers to transfer it at a profit to developers would fall into this category (Deng et al., 2010). An example of cronyism in Russia reported in the media (Vasilyeva, 2016), involved the Moscow city government having committed to buying subway

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cars from a company in which the chief of the Moscow transportation department had held a stake. The tender requirements favored that company, and despite violations found in the tender by the federal anti-monopoly agency, the tender was declared valid.

Closed Reciprocity and Bribery

The intermediate circle in Figure 1 is characterized by closed reciprocity, which is a direct exchange that is less personal than open reciprocity, and is most like market exchange (Graeber, 2001). With closed reciprocity, the parties view each other as having distinct economic and social interests and arrange an exchange that gives each what they are seeking. Such exchange is characteristic of business networks that may be based on mutual reciprocity, but the ultimate motivation for establishing and maintaining the relationship is one's own personal gain (Schonsheck, 2000). A typical example of closed reciprocity is kickbacks between private firms, where the individual in charge of the purchase receives financial or other compensation for making a favorable decision for a certain supplier. Such exchanges are typically viewed as conventional business practices in network-based societies such as China (Millington et al., 2005), whereas in many Western countries, paying or requesting such 'commissions' is illegal.

The utilitarian principle underlying balanced exchange, according to Schonsheck (2000), may eventually lead to requests for behavior that meet the criteria of corruption in terms of legality and/or ethicality. This is particularly evident where the network members are private and public-sector representatives. As noted by Warburton (2013), the view of corruption as social exchange considers it as a transaction of resources which can be either material or non-material. Because of its convertibility (Warburton, 2013), the most frequent form of corruption based on balanced reciprocity is monetary bribery, such as when Chinese state officials allocate infrastructure construction projects to contractors in exchange for grease payments (Deng et al., 2010). Similarly, bribery in the form of kickbacks is an integral part of public procurement in Russia (Ivanov, 2015).

Regarding examples of bribery in China and in Russia, a number of cases have been reported in the media of Western multinationals, particularly in the pharmaceutical industry, having engaged in such activities. The most notorious case is that of GlaxoSmithKline (GSK), whose executives were accused by Chinese authorities of paying bribes to promote their products, resulting in substantial fines (Bradsher & Buckley, 2014). The corrupt practices included forging receipts for purchases and transactions that never took place, including fake conferences (Lee, 2015). In the same vein, employees of the Israeli Teva Pharmaceutical Industries Ltd., the world's largest generic drug manufacturer, paid bribes to a high-ranking government official in Russia to use his authority to increase sales of Teva's multiple sclerosis drug in annual drug purchase auctions held by the Russian Ministry of Health (Lubitzsch & Baimakova, 2017).

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Negative Reciprocity and Extortion

The outer circle of our framework is characterized by negative reciprocity (Sahlins, 1974) where transactions are conducted with the goal of providing net utilitarian advantage. This is the most impersonal type of exchange where the participants engage with opposing interests, each looking to maximize utility at the other's expense. The 'reciprocity' is conditional, a matter of defense of one's self-interest. The likelihood of achieving one's goals is related to the power each individual has over the other party (Casciaro & Piskorski, 2005; Warburton, 2013). According to our research framework, power vested in public officials is generally greater than that of a business person, since public officials control resources vital for businesses to function. Hence, in the outer circle where the social distance is the greatest, corruption is more likely to take the form of extortion.

In contrast to bribery, where the business is receiving some benefit in return for the bribe payment, in extortion, the only beneficiary is the corrupt official. In business relationships, extortion is often linked to criminal activity, as extortion by definition is associated with implicit or explicit threat by the initiator of the transaction (Jeurissen, 2007: 204). When authorities are involved, such threats may force the closure of the business. Radio Liberty published a story of extortion faced by a store owner in Russia, where the economic crimes police confiscated his goods, worth about 60,000 rubles ($2,200). They inventoried the goods and took them away, and the next day ordered the businessman to appear at a police station where they told him confidentially, 'We confiscated your goods worth 60,000 rubles. Give us 30,000 rubles, and the goods are yours' (Lambroschini, 2000).

Corrupt officials may also threaten to perform their tasks in a manner that is harmful to the operation of the business. An example of such extortion from China is when inspectors demand some compensation, or 'kickback', from suppliers in exchange for favorable reports of product quality. The goods produced at a factory may meet the formal requirements, but an unscrupulous inspector may threaten to submit a report to the contrary, unless some kind of 'fee' is paid (Niggl, 2017). In both examples, the only beneficiary is the corrupt official, while the entrepreneur incurs an additional cost.

Social Ties as a Determinant of Types of Corruption in *Guanxi* and *Blat*/*Svyazi* Networks

Our discussion has focused thus far on outlining the various types of reciprocity and corruption that exist in *guanxi* and *blat*/*svyazi* networks. We now provide an explanation for why a particular type of corruption becomes prevalent within these networks, in particular, why extortion is more commonplace in Russia than in China. We introduce the final component of our conceptual framework, the nature of social ties, and discuss the underlying morality and trust of these ties.

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Particularistic trust and general trust. We posit that the nature of social ties determines the forms of exchange within social networks, following Li (2007a, 2007b), and view trust as the basis for differences in social ties. Particularistic trust involves a narrow circle of familiar others, and general trust, a wider circle of unfamiliar others (Delhey, Newton, & Welzel, 2011; Luo, 2005). We maintain that while corrupt exchange in the inner and intermediate circles, as depicted in Figure 1, is always based on particularistic trust, the nature of general trust may differ between societies and influence corruption in the outer circle.

The relationship between trust and in-group social networks has been prominent in the literature (Coleman, 1988; Granovetter, 1983; Putnam, 2000), and networks have been seen as the 'glue and lubricant' of trust (Anderson & Jack, 2002). Trust can be defined as 'a belief that other agents will act in predictable ways and fulfill their obligations without special sanctions' (Radaev, 2004: 91). Trust is seen as influencing the cost and efficiency of transactions that involve risk (Arrow, 1973), by lowering risk and uncertainty as well as reducing the need for control in complex situations (Höhmann & Malieva, 2005). Additionally, low-trust, familial societies incur high transaction costs, and thus can create only small networks with limited computational capacity, while high-trust societies can create large networks, enabling them to act as more powerful computers (Hidalgo, 2015). From the perspective of economic exchange, trust can be defined as a 'willingness to rely on an exchange partner in whom one has confidence' (Moorman, Deshpande, & Zaltman, 1993: 82). In social networks, trust may be based on interpersonal bonds, such as friendship and shared social norms, or be gradually created through frequency of interaction (Svejenova, Koza, & Lewin, 2006; see also Gulati, 1995).

As discussed previously, trust in Chinese *guanxi* networks is based either on common social identity or through trust of a familiar person and can be built gradually based on common interest and repeated interaction. Chinese people build their personalized trust-based circles and then connect them with the two outer circles, forming a much larger social network (Li & Wu, 2010), a reflection of the open gate possibilities of *guanxi*. As depicted in Figure 1, the boundary between the intermediate circle and the outer circle that refers to members of the society as a whole, is relatively permeable. In contrast, *blat*/*svyazi* produces an extreme level of particularistic trust within the inner circles, and little general trust to those in the outer one. Partnership and cooperation are viewed as being too unreliable to build a long-term relationship upon (Mikheyev, 1987) and thus frequency of interaction does not generate trust to the same extent as in some other societies. Therefore, the boundary between the intermediate and the outer circles is relatively impermeable. Particularistic trust binds those in the two inner circles, but the typical lack of general trust inhibits the formation of bridging ties to those in the outer circle.

Underlying moralities of particularistic trust. In addition to the different relationship between particularistic and general trust, social networks differ in the configuration of particularistic trust. Li (2007a, 2007b) argues that particularistic trust can have

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different configurations, including rational-cognitive, moral-norm, and emotional-affective aspects (Li, 1998, 2007c, 2008; Mayer, Davis, & Schoorman, 1995). The fundamental distinction is that the rational-cognitive aspect views social ties as informal means toward formal ends, whereas both the moral-norm and emotional-affective aspects view them as informal means as well as informal ends in themselves (Li, 2007b: 236). Therefore, the exchange within social networks is both instrumental and sentimental (Graen & Uhl-Bien, 1995; Li, 1998; Lin, 2001) because the network consists of dyadic ties with different configurations of trust. Li (2007a, 2007b) also makes a distinction between personalized and generalized morality within networks. Personalized morality is the obligation to a specific person with a strong tie (Li, 2007c), while generalized morality is the obligation to all the members of a community (Putnam, 1993) with or without any direct ties.

Li's concept of personalized and generalized morality is in line with Sahlins' (1974) theorizing that like reciprocity, morality is also sectorally organized. A given act would not in itself be ethical or unethical, but its ethicality may depend upon how distant the exchange partners are from one another (see also McCarthy & Puffer, 2008). Therefore, in our framework different moral rules would be applied to those in the inner, intermediate, and outer circles. We argue that in virtually all societies, exchange within the inner circle is based on personalized morality, which makes the exchange sentimental. What makes societies different is the way in which personalized morality interacts with generalized morality when moving towards the outer circles of the network.

In Confucian cultures such as China, where society is historically structured as an extended family (Li, 2007b: 233), networks are based on a strong moral-emotional aspect. The principle of personalized obligation, which is strongest in the inner circle of our framework, may color relations in the other circles as well. This is due to the Confucian principle of applying rights and duties of the family analogously to society as a whole (He, 2011). Additionally, the successful accumulation of favor exchanges within the inner circle of the network raises a person's expectation of, and confidence in, the return of goodwill by others in general (Luo, 2005). We argue that in such societies, corrupt exchange taking place in the networks nearly always exhibits the sentimental component, at least to some extent. Thus, extortion based on negative reciprocity and having a purely instrumental character is not as common as cronyism and bribery. Thus, we maintain that corrupt exchanges taking place among members of *guanxi* networks can generally be considered to have a sentimental and mutually beneficial character, rather than taking the form of one-sided, predatory extortion.

In contrast, some societies such as Russia are characterized by low levels of general trust, i.e., low trust in 'unfamiliar others' (Delhey et al., 2011; Luo, 2005), and in such societies, morality has a dual nature. Personalized morality and sentimental exchange are mainly limited to the inner circles of the network, whereas exchange in the outer circle is purely instrumental and based on negative morality. Such conditions provide a basis for extortion to prosper, since moral

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obligation found in the inner circle is not extended to the members of society as a whole. In such countries the principle of personalized obligation in the inner circle promotes the institutionalization of corruption.

DISCUSSION

In this article we have sought to explain why corruption seems to have a more negative character and deterring impact on foreign businesses in Russia than in China. We formulated the following research question: How do network characteristics of *guanxi* and *blat/svyazi* relate to different types of corruption? To address this question, we drew upon various streams of literature on *guanxi* and *blat/svyazi*, as well as insights from economic anthropology, corruption research, and social network analysis.

Our theoretical starting point was that the interaction of social networks and corruption is contingent on the institutional environment (e.g., Choi, 2007; Oldenburg, 1987; Scott, 1972), and China and Russia are different in this respect. We found support for this argument from existing literature on *guanxi* and *blat/svyazi*, which proposes that these networking practices would have developed in different directions during the period of transformation to a more market-oriented economy.

We viewed corruption as a form of reciprocal exchange that takes place in social networks (Warburton, 2013), which are based on broader structures of a country's culture and society. These structures include the nature of morality and general trust which serve as foundations for relationships in different layers of the networks. Research on *guanxi* and *blat/svyazi* has identified these aspects as potential explanations for the differences between these networking practices in the market transformation period. We developed this notion further and linked it to corruption, thereby addressing a gap in existing knowledge on *guanxi* and *blat/svyazi*.

We depicted the social network structure as consisting of three circles of exchange, and applied the concepts of social distance (Sahlins, 1974) and reciprocity (Graeber, 2001; Sahlins, 1974) rooted in economic anthropology. Then we mapped three categories of corruption onto these three circles of exchange. Whereas the inner circle is dominated by 'illegal favors done for loyalty or kinship' (Scott, 1967: 502), we posited that the most characteristic types of corruption for the intermediate and outer circles are bribery and extortion (Lindgren, 1993), respectively. Following Li (2007a, 2007b), we argued that different forms of reciprocity (open, closed, and negative) are associated with different types of social ties (sentimental and instrumental), which are rooted in the moral norms of the society in which the network is embedded. These moral norms include the perceptions towards other members of the society beyond the boundaries of the network and underlie the nature of corrupt behavior of network members.

When applied to *guanxi* and *blat/svyazi*, there are fundamental differences between the underlying moralities and thus the forms of reciprocal exchange

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in these networks. In China, *guanxi* networks exhibit a gateway characteristic (Gao et al., 2012) that allows both sentimental ties and closed reciprocity to expand to individuals in the outer circles of the network. As a consequence, corruption in *guanxi* networks is likely to have a mutually beneficial character that takes the forms of cronyism and bribery. At the same time, individuals in the outer circle can avoid being subjected to one-sided corruption, in the form of extortion, by being treated as prospective members of the inner circles.

In contrast, Russian *blat/svyazi* networks tend to be exclusive and have different moral rules for members and non-members (McCarthy & Puffer, 2008). The ties beyond the inner circle are purely instrumental, whereas closed reciprocity is strictly limited to the outer border of the intermediate circle. Hence, those in the outer circle are likely treated with negative reciprocity in the form of extortion. Thus, social or network reciprocity could potentially affect decisions about the type of corruption that a society might consider acceptable and even ethical.

This article extends comparative research on *guanxi* and *blat/svyazi* networks (Batjargal, 2007; Hsu, 2005; Ledneva, 2008; McCarthy et al., 2012; Michailova & Worm, 2003) in several ways. First, it unpacks how underlying moralities, including trust, define the types of reciprocal exchange in these networks. In particular, we introduce the concept of negative reciprocity from social anthropology (Sahlins, 1974) to the research on social networks in business studies, the latter discipline predominantly viewing such exchange as being positive and mutually reciprocal. Second, this article provides a fine-grained conceptualization of types of corruption as embedded in *guanxi* and *blat/svyazi* networks. In doing so, it advances previous research on *guanxi* and *blat/svyazi* that has mainly conceptualized them as neutral or positive networking practices. Our analysis of corruption provides an explanation of how the underlying moralities of *guanxi* and *blat/svyazi* may also lead to negative practices displaying the 'darker side' of social capital (Williams & Onoshchenko, 2015). Finally, the article applies the conceptualization of *guanxi* as consisting of different circles into the analysis of *blat/svyazi*, which according to our knowledge has not been done before. Such an approach allows us to identify similarities in the structure of these networks, and also to underscore the permeability of the boundaries of these circles as a key difference between *guanxi* and *blat/svyazi* networks.

Our analysis has broader implications in that the linkage between network characteristics and different forms of corruption may help explain what we label the 'China-Russia paradox', why corruption and high economic growth can co-exist in China at least in the short term (Wedeman, 2002) in contrast to Russia, where corruption is a serious deterrent to economic growth (Larsson, 2006; Levin & Satarov, 2013). We maintain that this paradox is due not only to different types of market reforms and transition paths (Larsson, 2006; Sun, 1999; Wedeman, 2012), but also to differences in societal and cultural contexts. Our analysis suggests that the benefits of networks and trust that prevailed in the central planning system could eventually evolve into misallocation of resources in the subsequent period

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of market reforms. Such misallocation continues to take place both in China and Russia but is particularly striking in Russia due to the prevalence of the extortion type of corrupt exchange facilitated by the *blat/svyazi* tradition.

Limitations and Suggestions for Future Research

We invite future research to further develop and test our framework. This includes operationalizing its components into concrete measures and empirically testing the causal mechanisms that we proposed, including the relationship and dynamics between the various components. Propositions to be tested include social distance as an explanation for the type of reciprocity and its corruption equivalent in social networks, and the nature of social ties as the determinant of the permeability of the boundaries within social networks. Finally, our analysis of corrupt exchange in *guanxi* and *blat/svyazi* networks provides a limited picture of the spectrum of social exchange practices in transforming economies. We invite more fine-grained typologies that might emanate from other cultural contexts such as clan-based societies in Central Asia.

Ethical and Legal Implication for Doing Business in China and Russia

Our analysis provides important insights for foreign firms doing business in highly corrupt countries by addressing corruption as a social and cultural phenomenon. First, local managers of foreign firms may be used to the exchange of favors to the extent that they do not differentiate between acceptable favoritism between private parties and cronyism as a form of corruption. This is in part related to a different notion of law, including the degree of respect for formal, written law in different cultures. Therefore, in countries such as China or Russia, bending and even ignoring the formal, written law may be socially acceptable to fulfill obligations with one's personal network. For foreign firms, this implies a need for monitoring to ensure that cronyism will not take place as a means of maintaining business networks.

Second, our framework illustrates how engaging in cronyism or engaging in bribery both involve mutual reciprocity, but those practices differ in terms of their open or closed nature. Closed reciprocity associated with bribery is easier to identify and cope with than the open reciprocity of favors where a payback is not normally immediate. For example, large-scale bribery such as exchange of kickback payments for government contracts is relatively easy to recognize and deal with. Still, foreign executives who recognize the local acceptance of bribery should avoid the temptation to 'do as the Romans do' in the case of smaller-scale bribery, such as making facilitating payments for the timely issuance of various permits. It goes without saying that bribery is against the law even in highly corrupt countries and can entail legal consequences if a firm's involvement is exposed. For example, GlaxoSmithKline executives were accused of bribery by Chinese authorities, and

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the company was later fined nearly $500 million (Bradsher & Buckley, 2014). And companies can face severe fines under their own countries' laws. For instance, violation of the Foreign Corrupt Practices Act resulted in Hewlett-Packard having to pay $108 million in 2014 for engaging in bribery in Russia, Poland, and Mexico (ibid.).

Third, extortion is the most difficult form of corruption for foreign executives to cope with due to its one-sided character. Unlike cronyism and bribery, which usually have a voluntary component on the part of the business person, yielding to extortion may well appear to be the only practical alternative to get, for example, permits necessary for running the business (Karhunen & Kosonen, 2013). In Russia, such extortion is institutionalized as the practice of using informal intermediaries in dealing with corrupt authorities. Such practice narrows the circle of people communicating directly with an official and creates a protective barrier from undesirable 'outsiders' (Olimpieva, 2010). From a foreign firm's perspective, the cost of the bribe is often incorporated in the official 'service fee' of the intermediary, which makes the transaction appear to be legal. This practice may explain why smaller firms with limited resources may be tempted to 'outsource' corruption to intermediaries (see Bray, 2005; Fey & Shekshnia, 2011). In China, extortive behavior is to a greater extent controlled by cultural norms that prevent the formation of such closed circles around the officials.

Finally, networks, including the foreign business's home-country networks, may facilitate dealings with corrupt local authorities by developing relationships with members of inner circles that are influential with government officials, while still exhibiting behaviors with acceptable ethical standards in that environment (Karhunen & Kosonen, 2013). However, in many cases, it might be more effective for such foreign businesses to develop their own relationships with networks in the host countries in which they operate (McCarthy & Puffer, 2008). Understandably, foreign firm managers must utilize the most appropriate networks to accomplish their business objectives within the prevailing ethical and legal constraints.

CONCLUSION

In conclusion, our framework suggests that when assessing the potential impact of corruption on doing business abroad, and primarily in transforming economies, company managers should investigate the ways in which corruption develops and gain an understanding of how and why it develops, especially in the case of extortion. In our view, this most harmful form of corruption is more prevalent in Russia than China due to differences between networks in those two countries, China's *guanxi* networks being markedly more permeable than Russia's closed *blat/svyazi* networks. These network differences are fundamental contributors to the prevalence of various types of reciprocity and trust that in turn determine the prevailing type of corruption.

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NOTES

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[1] There is no consensus in the literature about the relationship between the concepts of *blat* and *svyazi*. For example, Batjargal (2007) views them as two distinct practices, whereas Ledeneva (2009) argues that both terms initially refer to the same phenomenon. Ledeneva (1998: 1) also points out that *blat* and the term *ZIS* (*znakomstva i svyazi*, acquaintances and contacts) existed in parallel in the Soviet era and referred to the same practice. Berger et al. (2017) use the word *svyazi* as interchangeable with *blat*. In this article, we do not take an explicit stance to this debate but follow McCarthy et al. (2012) and use the formulation *blat/svyazi* in reference to the post-Soviet networking practice.

[2] See, for example, Delhey et al. (2011) on how the statement that most people can be trusted, which is frequently applied as proxy for general trust, should be interpreted in the Chinese context.

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