

# Facilitating Knowledge Sharing in Russian and Chinese Subsidiaries

## The Importance of Groups and Personal Networks

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**FACILITATING KNOWLEDGE SHARING  
IN RUSSIAN AND CHINESE SUBSIDIARIES:  
THE IMPORTANCE OF GROUPS AND PERSONAL NETWORKS**

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**Abstract**

The unprecedented escalation in the number of organisations that have decided to internationalise their operations in the last two decades, and the international movement of labour that has accompanied such expansion, has meant that understanding the process of knowledge sharing within subsidiary operations has become an issue of increasing importance. Where the cultural distance between home and host nations is great, as it is between Western industrialised economies and the transition economies of the (former) Communist nations, there is even greater saliency for achieving effective knowledge sharing if its potential value for gaining organisational competitive advantage is to be harnessed. In examining knowledge sharing in Russia and China, this paper specifically addresses how group membership and personal networking in these countries facilitate and impede knowledge sharing. Ultimately, the paper provides important insights for Western managers about how to optimise knowledge sharing in their subsidiary operations in Russia and China.

**Key Words:** Knowledge sharing, group membership, personal networking,  
Russia, China, Western Managers

## INTRODUCTION

During the last two decades there has been an unprecedented increase in the number of organisations that have decided to internationalise their operations. They have been assisted, and encouraged to do so, by, among other factors, the removal of national protectionist trade policies, de-regulation of international fiscal and monetary markets, and rapid advances in communications and distribution channels. The numbers of potential markets has been increased through the transition of former command economies to capitalist market-based economies. The international movement of labour that has been concomitant to such expansion of international business has meant that understanding the issues associated with knowledge sharing in subsidiary operations has become an issue of increasing importance to international managers and international management academics alike. Foreign direct investment (FDI) brings with it advanced technologies, marketing skills and easier access to export markets (Soubbotina and Sheram, 2000) but it also provides the opportunity for knowledge sharing, a bilateral process in which knowledge is transmitted and received by both international managers and local subsidiary employees.

Knowledge sharing has the potential to not only ensure the development of the nation in which FDI occurs but also to facilitate cross-cultural communication that contributes to cross cultural understanding between the parent and subsidiary operations, and ultimately cross-cultural effectiveness. Where the cultural distance between the multinational corporation's (MNC) nation of origin and the host nation subsidiary is great, there is even greater saliency for there to be efficient and effective knowledge sharing if gaining organisational competitive advantage is to be harnessed. Two such nations where there is a great cultural gap from the Western MNCs that have moved into them as foreign direct investors are the transition economies of

China and Russia. Both countries have taken advantage of the rapid demand for entry by international corporations since the opening of China to international investment in the late 1970s and the crumbling of Communism in the former Soviet Union in the beginning of the 1990s. .

China is currently recording amongst the highest rate of expatriate assignments internationally, yet while both China and Russia are ranked as amongst the five most challenging nations for expatriates (GMAC, 2002) they remain of particular strategic importance to many Western organisations that are relocating, and/or expanding their operations. China is the world's largest recipient of international FDI and in 2000 was worth US \$312 billion utilised capital in 340,000 foreign investments (Tung and Worm, 2001: 519). While Russia's international FDI in 2000 was much lower than China's coming in at US \$4.7 billion (Anon, 2001; The World Bank, 2002), Russia and the Newly Independent States have represented the fastest growing region in the world since 1999 with an average aggregate GDP growth of 5.5% (EBRD Transition Report 2001).

The increasing orientation of former centrally planned economies towards the industrialised world's system of market capitalism results from the necessity to adapt to international economic practices and organisational structures if they are to attract FDI (Morgan, 2001). Arguably, increasing the sharing of knowledge between international businesses and transition nations can contribute to achieving competitive advantage for both the international organisation and the subsidiary operation. This paper specifically makes reference to the former in providing insights for international business via suggesting strategies for optimising knowledge sharing when working with Russians and Chinese.

In examining the process of knowledge sharing as it applies in Russia and China, this paper refers to two specific aspects of Russian and Chinese culture that impact upon the extent to which knowledge will be shared. These are the perceptions of group membership and personal networking. Further, we suggest how international managers may work with these culturally embedded phenomena to increase the predilection for knowledge sharing within their subsidiary operations in Russia and China. In examining knowledge sharing in Russia and China, this paper is divided into three sections. First, we begin with a brief discussion of knowledge sharing as it applies in Russia and China in reference to group membership and personal networking as factors that can either impede or facilitate knowledge sharing. Second, we present the challenges for Western managers to achieve knowledge sharing in their subsidiary operations in Russia and China. Third, we outline specific guidelines for Western managers in order to cultivate a climate of knowledge sharing within their subsidiary operations in Russia and China.

## **KNOWLEDGE SHARING**

### **IN THE CONTEXT OF GROUPS AND PERSONAL NETWORKS**

#### **Knowledge sharing**

A growing body of literature has suggested that international businesses need to transfer distinctive knowledge to the foreign subsidiaries to build competitive advantage and offset some of the disadvantages of operating in these alien environments (Kogut and Zander, 1992). Moreover it has been argued that knowledge transfer is also of considerable benefit to the subsidiary operation which often has a limited knowledge base (Manne, 1965; Haspeslagh & Jemison, 1991). It has further

been suggested, though, that whilst the management of this knowledge transfer is a key managerial function necessary for achieving competitive advantage (Argote and Ingram, 2000), knowledge transfer does not always take place efficiently or effectively (Gupta and Govindarajan, 2000). Nor indeed is it always a two-way process that maximises learning for both international managers and subsidiary employees alike, that ensures that each partner can learn from the experiences and practices of the other.

Knowledge sharing can be defined as referring to a learning process whereby there is an assimilation of ideas. Knowledge sharing can be a positive or a negative for an organisation in that although there are clear benefits within an organisation of sharing knowledge for competitive advantage, once the knowledge is codified and articulated, the organisation risks the knowledge being imitated outside the organisation, which has the potential to damage competitive advantage (Winter, 1987). Husted and Michailova (2002) argue that knowledge is asymmetrically distributed in any organisation and that knowledge-sharing depends on the willingness of individuals to signal possession of knowledge and share it when requested. They further suggest that efficient knowledge-sharing involves direct contact and commitment on both sides of the exchange and monitoring whether knowledge-sharing actually takes place in an efficient manner is difficult. Moreover, Nonaka (1994) emphasises that efficient knowledge sharing depends on the willingness of individuals to identify to the organisation the knowledge they possess and to share knowledge when required.

Tsang et al. (2002) suggest that in transition economies such as China (and, we would suggest, Russia also), the international partner brings technology and management know-how. As a result of this belief, most studies that address

knowledge issues in strategic alliances operations in transition economies focus on the one-way transfer of knowledge from the international business partner to the subsidiary (see for instance, Child and Markoczy, 1993; Lu and Bjorkman, 1997). Much less research has been undertaken on transfer of knowledge from the subsidiary to the international business partner or indeed on the more subtle two-way process of knowledge sharing as opposed to the more direct downloading of knowledge. Clearly this is an area warranting further investigation given the importance of the transition economies to the international economy and the fact that leading organisational scholars have long argued that knowledge sharing is essential to organisational competitiveness (see Drucker *et al.*, 1997; Kogut and Zander, 1992; Leonard, 1995; Nonaka, 1994; Grayson *et al.*, 1998; von Krogh, 1998). It is argued to be of particular importance in MNCs as their ability to exploit knowledge is more efficient intra-corporate than through the market (Gupta and Govindarajan, 2000).

Moreover, it should be noted that problems with knowledge sharing are likely to be heightened where the gap between cultures is great as cultural differences do make significant differences to the way in which individuals behave in organisations. The cultural gaps between both Russia and the West and China and the West are marked given the long isolation that both nations had from the international political economy stage during the centrally-planned regimes.

### **Knowledge sharing in a cultural context: Russia and China in focus**

In examining knowledge sharing in Russia, Michailova and Husted (2003) found that the potential value of knowledge sharing is often defeated by what they term “knowledge sharing hostility” which may result from: (a) the behaviour of knowledge transmitters; (b) the behaviour of knowledge receivers; or (c) the transmitter's and

receiver's shared understanding of the content of the knowledge. Michailova and Husted (2003) argue that the basic problem of knowledge hoarding, as associated with the transmitter's behaviour, is intensified in the context of many Russian organisations by two specific features. First, knowledge hoarding is a mechanism for coping with uncertainty and, second, knowledge hoarding is combined with a high respect for hierarchy and formal power. The Not-Invented-Here syndrome is a general behavioural problem in knowledge sharing, associated particularly with the behaviour of the knowledge receiver. According to Michailova and Husted (2003), in Russian organisations, this syndrome is perpetuated by a strong emotional group affiliation among individuals on the one hand and a high level of suspicion towards outsiders (and especially Westerners) on the other. Apprehension about failures is a well-known obstacle for knowledge sharing among organisational members. The authors maintain that this apprehension can be extreme in Russian companies to the extent that it often completely blocks action and justifies passivity.

Several studies have reported differences in *knowledge-seeking* behaviours between Western and Asian managers (see, Peterson *et al.*, 1990; Smith *et al.*, 1994; Smith *et al.*, 1996) but these studies have not addressed differences in their *knowledge-sharing* behaviours. Importantly, Chow *et al.*'s (2000) study does explore the interface between national culture and knowledge sharing. Chow *et al.* (2000) analyse how the nature of the knowledge available for sharing, along with the knowledge owner's relationship to the potential recipient may interact with national cultures affecting people's openness in sharing knowledge. Based on studying business managers in the U.S. and China, they found that if private knowledge has no potential to damage the sharer's self-interests, there is no significant difference between U.S. and PRC nationals' willingness to share. However, when examining

knowledge that could potentially damage the sharer's self-interests while benefiting the company, the Chinese respondents indicated a significantly higher propensity to share, thereby putting the interests of the collective ahead of their own. Consistent with their predictions, Chow *et al.* (2000) found that the Chinese were also significantly less inclined than are their U.S. counterparts to share information files with other employees who are not considered to be part of their 'in-group'. Both Michailova and Husted (2003) and Chow *et al.* (2000) respectively argue that Russian and Chinese national cultures interact with attributes of the knowledge and employment setting to heavily influence the extent to which knowledge sharing occurs.

### **Group membership**

Organisational behaviour and group dynamics literature devotes some discussion to the notion of in-groups and out-groups. Triandis (1988) defines an in-group as a group of people who share common interests and have a concern for each other's welfare. Earley (1993: 321) refers to Tajfel's (1982) theory in which it is suggested that individuals form in-groups based on mutual interests and common traits since they are most likely to receive reinforcement for such traits from similar others (see also Tsui and O'Reilly, 1989; Zenger and Lawrence, 1989). It is further argued that in-group members will view their long-term welfare in terms of the successes of the group (Earley, 1993). Importantly, Triandis (1988) notes that in-group membership is culturally variable and Earley (1993) reaffirmed that people in individualist and collectivist cultures place differing value on in-groups and out-groups. Moreover, the literature on in-groups/out-groups is closely related to literature on trust. That is, people's perceptions of their own interdependence with other groups influences their

beliefs about group members' trustworthiness and their affect for group members. This in turn, effects interpersonal trust development (Williams, 2001: 377) and consequently, knowledge sharing. According to Dixon (2002: 39), the better that a group of people knows each other, the more that people in the group will call on each other's knowledge.

In China, one's membership of in-groups affects all daily activities be they in the economic or social sphere. The value of in-groups is inextricably linked to trust and dependency with others for resources and services. Those who fall out of an in-group are regarded as out-group members and they are not willing to share their knowledge with in-group members. Littrell (2002: 17) suggests that the in-group is the source of identity, protection, and loyalty, and in exchange for such loyalty, knowledge can be expected to be shared within the group but would be expected to be restricted to those considered to be outside the group. Achieving insider status is critical in order to achieve very diverse outcomes, ranging from smoothing transport difficulties, through collecting payments (Leung *et al.*, 1996), to gaining access to organisational knowledge (Krug and Belschak, 2001: 12).

In Russia, strong collective instincts were born in the countryside in the pre-revolutionary time. Long before the Soviet state, collective farming was encouraged by the Tsars because of their fear of anarchy. Ethics of the *obshina*, the commune of villagers, was embedded in the peasant psychology and often carried from the farm to the factory when peasants migrated to cities (Smith, 1990). People who belonged to the *obshina* lived together, worked at the fields together and were accustomed to a common fate. Socialism has perpetuated this group thinking and behaving through ignoring the importance of individuals. Ashwin's (1996) research found that Russian workers identify three distinct forms of collectivity: the symbolic collectivity of the

enterprise as a whole; the collective identification of the ordinary workers; and, the collectivity of the immediate work group. Most importantly, she also highlights that in each case the collective is defined negatively in relation to the outside. Evidence of the in-group focus has been notable also in Russian organisations in the years of post-socialist transformation. Elites who are insiders have been able to co-opt resources of state organisations to develop their own companies (Avraamova, 1995; Sedaitis, 1997). Wiley (1994) suggests the necessity for basing groups around common interests and concerns and common frames of business reference.

### **Personal networking**

The literature on networks in transition economies has overwhelmingly focused on the importance of interpersonal relationships for the conduct of business (Crawford, 2000; Peng, 2000; Tan and Yeung, 2000; Tong and Yong, 1998). In these contexts it has been argued that transaction costs are not suitable for understanding networks as it is the abovementioned concept of in-groups and out-groups that determines relationships (Chen *et al.*, 2002). While some recent findings suggest that as transitional economies become more competitive, the networks and connections previously thought to be imperative for business success will no longer seem as important as before (Child and Tse, 2001; Guthrie, 1998; Wright *et al.*, 2002), other authors argue that personal connections are crucial to transacting business (and, we would argue, essential to propensity to share knowledge also) (Bian and Ang, 1997; Buttery and Wang, 1999)..

The phenomenon of personal networking in Russia is commonly referred to as *blat*. According to Berliner (1957), the term *blat* is one of those many flavored words which are so intimate a part of a particular culture that they can be only awkwardly

rendered in the language of another. During the decades of central planning *blat* was a forced necessity. It was, to a great extent, the result of dealing with the permanent shortage of any kind of resources and consumer goods, poor quality and terrible delays in service and as such, *blat* was an essential lubricant for life. *Blat* opened doors, forbidden doors as well as many that in principle should have been open – to a physician, for example. *Blat* worked where money did not (Ledeneva, 1997: 152) and almost any transaction could work *po blatu* (through connections) or *po znakomstvu* (through acquaintances). Metaphorically, whoever belonged to the *blat* network made “virtual” deposits in a virtual bank, which might be called a “favour bank”, by pulling strings for someone else (Neidhart, 2002). Through such networks people could get almost anything, even when the stores were empty. All one needed were connections, or a connection to others who had connections. People bought their way into networks with their connections. According to Neidhart (2002) these favor banks did not keep formal accounts; the books balanced automatically. If someone contributed too little to the network, s/he lost their “credit-worthiness”. No one would pull strings for her/him.

Coping with scarcity was, however, not the sole source of *blat* related phenomena. As pointed out by Ledeneva (1997: 154), the latter resulted from the particular combination of shortages and, even if repressed, consumerism; from a paradox between an ideology of equality and the practice of differentiation through the closed distribution system. In a context where the notion of individual was illegitimate, *blat* was a powerful instrument for involving a number of individuals in a complicated network based predominantly, if not solely, on personal features and exchange mechanisms. It became an essential part of people’s everyday life and an inextricable element of the notions of close friendship and trust reflected in the saying

“*Tuy-mne, ya-tebe*” (“I give you something, you give me something”) (Il’in, 2001). In the logic of *blat* in Soviet Russia the return of the favour was usually postponed, sometimes with years, until the appropriate situation occurred to pay off the favor. That was associated with a high level of stability of the society and the environment. There were no dramatic changes or revolutionary transformations. Thus, it was not a problem to wait for a returned favor.

The *blat* phenomenon has certainly not disappeared although there is a generational difference in the usage of the term. It would be misleading to believe that informal networks are merely a remainder of central planning. They have their cultural roots that are more stable, more deeply embedded and consequently, more difficult to change. Therefore, although market economy principles and mechanisms were introduced, there is still continued need for *blat*.

Literally relations, *guanxi* in China also refers to a wider set of interpersonal connections that facilitate favour between people on a dyadic basis (see Yang, 2002). In China relationships have been argued to be paramount in business where *guanxi* develops between those who are strongly tied on the basis of familiarity or intimacy and knowing a good deal about each other and sharing a good deal with each other (Bian and Ang, 1997: 3). Further, *guanxi* is seen as a relationship of achieving status and moving towards *insider status* or becoming part of the *in-group* (Buttery and Wang, 1999: 151-152). Bian and Ang (1997: 3) argue that “unlike Christianity, which puts individuals in reference to God, Confucianism relates individuals to their significant others such as father and uncle in the family, and teacher and master in one’s career development. This lays both the abstract and the concrete foundations for *guanxi* to operate in Chinese societies”. Luo (2000: 2) suggests that *guanxi* differs

from inter-firm networking in the West in that it is ubiquitous and plays a fundamental role in daily life.

While *guanxi* may be organisational, at its heart it is a relationship between people who are expected, more or less, to give as good as they get. A Chinese individual with a problem, personal or organisational, naturally turns to his or her *guanxiwang*, or 'relationship network,' for help. An individual is not limited to his or her own *guanxiwang*, but may tap into the networks of those with whom he or she has *guanxi*. Indeed, the expression '*duo yige guanxi, duo yitiao lu*' – 'one more connection offers one more road to take' – is commonly used in China (Seligman, 1999: 34-35).

Studies of Chinese societies have focused on relationships - family networks, friendship, and other particularistic ties to gain an understanding of Chinese businesses (Blackman, 2000; Lever-Tracy *et al.*, 1996; Redding, 1990). Indeed, in the case of China it has been argued that the cultivation of personal connections has proved a substitute for reliable government and established rule of law and that, in the absence of effective state institutions as regulators of transactions, and in dynamically changing contingencies, personal networks have become endemic to doing business (Xin and Pearce, 1996). There is still agreement in the literature that the current business culture is based on strong family networks or cultural ties secured in *guanxi* connections underpinned by strong Confucian ethics. Several other characteristics reinforce the concept of *guanxi* and status, including *mianzi* (face), reciprocity, *xinyong* (trust) and *renqing* (favours) (for discussion on each of these, see Buttery and Wang, 1999; Wong and Tam, 2000).

## CHALLENGES FOR WESTERN MANAGERS

As illustrated, there are a limited number of articles that examine knowledge sharing in Russia (Michailova and Husted, 2003; Jankowicz, 2001) and several others that examine knowledge transfer (Child and Markoczy, 1993; Lu and Bjorkman, 1997; Newell, 1999; Tsang *et al.*, 2002; Wang *et al.*, 2001) in the Chinese context. However, much of the existent literature has suggested that Russians actually have a propensity not to share knowledge at all or that they may be termed as ‘knowledge sharing hostile’ (Michailova and Husted, 2003). This would suggest that Western organisations face insurmountable obstacles to creating an organisational culture in subsidiary operations in which knowledge is shared.

Yet, we argue that understanding knowledge sharing in Russia and China is more complicated than has been previously assumed and that knowledge sharing may actually be greater than in Western nations if an in-group relationship exists between transmitter and receiver. To this end we argue that Russians and Chinese are not completely hostile to sharing knowledge, and there are strategies that Western organisations can adopt to encourage an environment of knowledge sharing within subsidiaries. In essence, to improve intra-organisational knowledge sharing that can enhance the performance of subsidiary operations, international managers need to increase their intercultural competence in functioning within the confines of the historical (yet dynamic) legacy of Russian and Chinese cultures.

One of the major difficulties that international businesses face in the conduct of their day-to-day operations, especially in relation to knowledge sharing, is not being able to understand and deal with the complexities and intricacies of other cultures. Key to international managers’ ability to achieve knowledge sharing in their

interactions with Russian and Chinese employees is the need to recognise that a) networks in Russia and China are distinctly different from those in the West, and b) the existence of in-groups and out-groups is central to business relationships. Russian/Chinese networks are based largely on collectivist relationships, involve highly frequent exchanges, and exist at both workplace and non-workplace levels. For Western managers it is crucial to recognise that relationship building must occur before business is transacted (and knowledge sharing occurs) and that relationship building takes a long time. An important distinction between Western and Russian/Chinese practice is that for the Westerners the ends can often justify the means but for the Russians/Chinese the means is more important than the ends (Trompenaars and Hampden-Turner, 1997).

## **TOWARDS ESTABLISHING A KNOWLEDGE-SHARING ORGANISATIONAL CULTURE: SUGGESTED ACTIONS FOR WESTERN MANAGERS**

- ***Recognise the importance of using intermediaries***

The inclination to not share knowledge with outsiders means that the only way in which one is able to access information from an outsider is to work towards the ascription of insider status or work through intermediaries who already possess insider status. As relationship building in Russia and China is a lengthy process, Western managers should not attempt to create instant relationships themselves – to do so would insult the Russians and Chinese and prove frustrating for the Westerners. What is required is that Western managers utilise intermediaries in the short- to medium-term while they work at building their own interpersonal networks in the

long-term. Intermediaries may be either local Chinese/Russian or other Western managers who have already established relationships. To achieve knowledge sharing inside their organisations, it will prove beneficial if Western managers can build networks with departmental Chinese/Russian managers with a view to increasing the interaction across departments. Organisations external to the business can provide assistance in building the relationships that will assist knowledge sharing. For instance, trade commissions often have contacts into the local community and can facilitate in building relationships between international managers and local business partners, or may in turn, have networks with the subsidiary organisation's employees. Use of such intermediaries can prove highly effective in opening up communications within organisations, and consequently, in facilitating knowledge sharing.

- ***Avoid introducing cross-functional teams that counteract already established in-groups***

In essence, what Western organisations need to avoid is just attempting to unilaterally force groups to work together. Self-managing work teams are increasingly used worldwide (Nicholls *et al.*, 1999), not least because they are assumed to stimulate knowledge sharing. However, such a strategy is not likely to work in the Russian and Chinese contexts. Indeed, by forcing out-groups to work with each other management risks a situation evolving in which there is not only conflict between the out-groups but also the development of conflict within in-groups. Reconfiguring existing teams and creating new ones in the long term can be done but it does take time to build an organisational culture that broadens its perception of who is included in an in-group. Lichtenstein *et. al.* (1997) suggest that this can be done by developing a strategy in

which team members' shared characteristics become more salient than the characteristics that differentiate them.

- ***Consider utilising personal recommendations from existing employees in recruiting new employees***

While in Western organisations it is usual to recruit externally for additional employees, in the Russian and Chinese context it is relatively common to employ friends or family members of existing employees. These individuals often make very valuable employees because their connection to the in-group imposes an implicit pressure on them to perform. This implicit pressure relates directly to the obligation to preserve face for the individual and the group. Appointing newcomers who already have attachments to an existing group is likely to facilitate knowledge sharing.

- ***Reward and compensate groups, not individuals***

In Western organisations managers have traditionally been focused on individual-based incentives. Yet, to create an organisational culture that stimulates knowledge sharing in the Russian or Chinese subsidiaries, however, would depend upon maintaining the anonymity of individuals, as Russians and Chinese dislike standing out from their group. Organisational members may be encouraged to share knowledge when all are offered an incentive on a group basis rather than providing incentives for individuals. Similarly, performance appraisals should be given to a group as a whole as should any additional compensation for good performance – to do so means that individuals are not singled out from the group. This is because in Russia and China people who stray from the group are considered to have bad, weak or untrustworthy character. Moreover, as Littrell (2002: 18) notes of China, (and can also be argued of

Russia) management is management of groups, and opinions are predetermined by group membership.

- ***Avoid implementing peer-based assessment***

In Western organisations there is a trend towards utilising peer-based assessment. However, to do so will probably prove problematic in the Russian and Chinese contexts. This is because people in in-group cultures will be inclined to give greater reward allocation to, and be ‘softer’ in assessments of, in-group members than out-group members (Hui et. al., 1991; Leung & Bond, 1984). Moreover, in a collectivist culture it will be harder for in-group members to give and receive negative feedback from each other (Gomez et. al., 2000). Giving and receiving feedback is of key importance for creating a knowledge sharing-friendly environment. If Western managers are not aware of the specificity of giving and receiving feedback in a Russian or Chinese context, they may stifle employees’ efforts at sharing knowledge.

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