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GUANXI IN THE WESTERN CONTEXT:

INTRA-FIRM GROUP DYNAMICS

AND EXPATRIATE ADJUSTMENT

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When it is clear that those in authority understand human ethical relationships, the people will be affectionate… Human ethical relationships: love between father and son, duty between ruler and subject, distinction between husband and wife, precedence of the old over the young, and trust between friends.

人伦明于上，小民亲于下…… 父子有亲，君臣有义，夫妇有别，长幼有叙，朋友有信。

Mencius

The English code for England is CLASS,
The French code for France is IDEA,
The American code for the USA is DREAM,
The German code for Germany is ORDER.

Clotaire Rapaille, *The Culture Code*

The Chinese code for China is *GUANXI*

PREFACE

The degree of social, political, business, and cultural change in China in the past three decades is completely unprecedented and beyond anyone's expectations. My 20 years' practical experience in Western multinational companies (MNCs) in China and seven years' teaching in the UK triggered me to embark upon the pursuit of a PhD in order to satisfy my pressing need to explore how Chinese and Westerners could appreciate each other and work together without unnecessary conflicts or compromising their own values, given my witnessing of numerous failures in international business due to the misconceptions and differences that appear when West meets East. In particular, frustrations have commonly arisen, when doing business across cultures, from both my Chinese and Western colleagues, who are mainly senior managers working for multinational companies (MNCs). Among all the "Chinese myths," the *guanxi* phenomenon likely ranks the highest because it is pervasive and entrenched in Chinese society, and yet it puzzles Westerners. *Guanxi* is such a powerful thing to which the Chinese are addicted, with its attachments of "love and hate." It is simply a part of Chinese DNA. Having been perceived to be a "Westernised Chinese," I cannot name a single success in either my professional or private life without *guanxi* elements in it. In my seven years of living and working in the UK, I have been through ups and downs during which I was doing *guanxi* practice and *guanxi* building with both host country nationals (HCNs) and host country Chinese (HCC). Eventually I formed my *guanxi* circle, consisting of both Chinese and Westerners. Subsequently, these four years of PhD research would not have been accomplished without *guanxi* to access informants willing to share their true feelings and thoughts. In other words, this thesis represents the labour of my *guanxi* practice and building in the West. It was challenging but by all means worthwhile.

Two and a half decades is probably a long enough time in which to depict one's working life. However, this is not true in my case. I belong to a generation that bridged those preceding it and struck out on my own, and can therefore claim many "firsts" since China reopened and reformed in 1978: the first generation to have proper academic education after the Cultural Revolution (1966–76); the first cohort of students to have studied the English language; the first batch of Chinese employees to have worked at Western MNCs in China; the first echelon of Chinese managers to take over from expatriates and thus to localize western MNCs. My entire career history can therefore act as an empirical study of a generation who witnessed and experienced drastic changes in international business and who transformed Western MNCs into "glocal" organisations in China and enabled Chinese MNCs to successfully operate in the West.

My Journey

1990s: The First Person to Try a Tomato. Owing to my growing up in a "business colony," I am considered to be one of the Westernised mainland Chinese managers working for Western MNCs. Born in Beijing in 1969 as the elder child of two, I am a member of the "In-Between Generation." By the time I started my primary school education in the spring of 1977, it was the first year that academic education had resumed since the end of the Cultural Revolution. The only thing I can remember about my first day at school is how all the teachers kept saying, "What a lucky girl you are." When I graduated in 1991, I was one of a few "rebellious" graduates who decided not to pursue a position in government or at a state-owned enterprise (SOE), but, against my father's wishes, instead opted for a role at a "colony" (capitalist) foreign entity. From my parents' point of view, "working for a capitalist" was immoral and unethical. Furthermore, "doing business" was degrading given that my father is a Confucian scholar as well as a role model for Communist Party members, despite being sent to the countryside for "re-education" during the Cultural Revolution. It also did not make much difference that my

mother was a doctor in Western medicine who had graduated from a school established by a German. Both of them completed their higher education before the Cultural Revolution in 1966. We are actually one of the few lucky families in modern China in which no one missed out on a proper education (either academically or culturally).

Eventually, and without informing my parents, I managed to pass the tough entry test and embark on my career in a Western MNC as one of the first batches of graduates working for Westerners. In 1991, at the age of 22, I earned more than the combined income of my parents—who both enjoyed a top salary while working in Chinese government roles—and 10 times that of my classmates who worked for the government or SOEs. My parents did not know which company I worked for until the day my German boss invited them for dinner to show his appreciation for my hard work. It was probably the first time that my parents encountered a "capitalist" in the new China. Fortunately, they were satisfied enough to support my career in the "colony" ever since. However, I did not dare tell them how "generous" the capitalist was at that time. I was worried that they might feel uneasy and consider it unfair, given that they were conditioned with the Chinese tradition of "income based on seniority."

1995: Growing Pains. Given the 50/50 joint venture (JV) formation of the Western MNC, as well as its differing cultural values and business concepts, the tensions between the two governing parties increased every day in the JV where I worked. I cannot remember how many arguments and disagreements I had to witness in the boardroom, or where I had to participate by acting as a translator. I was once almost fired by the Chinese chairman because my translation of the report written by my foreign boss was considered rude, even though I had tried hard to be as subtle as I could. Oftentimes, I had to mediate the conflicts between expatriates and local employees, which were mainly due to cultural differences and the insensitivity of Western expatriates toward Chinese protocols. I was lucky that my boss made generous efforts toward my personal development. Given that I come from a family of strong Confucian values as well as a rigid and strict Chinese

education emphasizing hierarchical and authoritative status, I was liberated by and flourished within the Western management style, which is democratic and less hierarchical and authoritative. It was challenging and exciting, and I can say that I was happy most of the time. I was the first Chinese mainland manager to frequently travel internationally; I enjoyed the challenge and was sometimes overwhelmed by the responsibility and the sophistication I had to bear at the age of 26.

When I attended the Asia-Pacific Global Accounts Management Conference in Hong Kong, I saw how far Mainland China lagged behind Western countries, not to mention Hong Kong, Taiwan, Japan, Korea, and even the Philippines and Malaysia. Of all my peers, I was the youngest and most inexperienced global accounts manager. I embarrassed my Japanese colleague enormously; he was probably my father's age and thought I was the "young tea lady" before I sat next to him in the meeting room. He never got over it. However, like China, I was forced to grow up rapidly.

Numerous joint ventures emerged in China during the 1990s. However, although many of them made significant profits, they all struggled with internal conflicts between foreign and Chinese parties. The foreign parties wanted cheap labour, access to local markets, and high profits; Chinese parties wanted intellectual property and technology. However, from management's point of view, the main issue was cross-cultural understanding and communication. I always considered myself the bridge, but sometimes the gap was just too wide for me to span. I once attended a board meeting to help with translation, when the British board director said, "I would like to challenge you on…" to the Chinese board director. I hesitated for a second and translated his words exactly into Chinese. When the Chinese board director heard the word "challenge," he stood up and left in a huff. His British counterpart was shocked, and I myself was stunned. The British board director looked at me and asked, "What the hell did you say to him?" "Sorry, I just repeated what you said in Chinese," I replied. In my mind I asked, "Why were you so aggressive toward the Chinese board director?" Both of us were puzzled. Actually, it took

me a while to understand that the word “challenge” in the English business context is neutral and is used to discuss a difference of opinion; however, in Chinese, “challenge” is a strongly charged word, implying provocation, aggression, and battle. The Chinese language is probably the most ambiguous and symbolic of all languages. A word is either positive or negative; it is very hard to find any neutral words. Furthermore, the Chinese manner of communication is highly contextual, which makes things even more complicated—even between Chinese. We often misunderstand each other with the use of certain words or tones.

2000: Great Expectations. I learned so much from my Western bosses and colleagues during my daily work. But I still wanted to know what lay behind Western management practices. When I gained my MBA from a US university in 2000, I was one of the first mainland Chinese graduates to do so; at the time, MBAs were still largely unheard of in China. Despite working in a renowned Western MNC in a senior managerial role, I was determined to undertake executive education (the education of working adults) throughout the rest of my career. Executive education was still in its infancy in China in 2000. Since then I have journeyed into the academic world, joining the Sino-British Management Institute in Beijing in 2002; I then became a trainer and tutor, developing and delivering training and educational programmes aimed at Chinese managers working at Western MNCs.

2005: A Tale of Two Cities. It was around this time that Western MNCs lost their favoured status. Moreover, along with the steady and drastic growth of the Chinese economy, as well as China’s entry into the World Trade Organisation, Chinese MNCs were now ready to prosper. With its 1 million employees, Sinopec was the largest of the top 100 SOEs in terms of size. It also had an ambitious globalisation strategy. However, its biggest challenge was developing a global and strategic mind-set among senior managers in order for them to execute their corporate strategy. I introduced Ashridge Business School to Sinopec, and it has sent 25 senior managers for eight weeks of

training at Ashridge every year since 2005. As the program director and a key member of the faculty, I started my journey from China to the UK in 2005.

2011: Against the Tide. At the time of the 2008 Beijing Olympics and the 2010 Shanghai Expo, the Chinese economy was in full bloom—just next to the US. Chinese MNCs began "going out" to recruit foreigners in the West, and Western-based Chinese started "coming back" to work in China for native companies. In the fight for talent, Chinese MNCs offered much more attractive packages than Western MNCs. Somehow, I was swimming against the tide again; in 2011, while my Chinese peers were returning to China or moving to Chinese companies for better opportunities and pay, I was "rebellious" again in deciding to teach full-time at Ashridge Business School in the UK. Now it is time for me to bridge the West and the Chinese in a different way. Fundamentally, education is at the very heart of Confucianism. As the daughter of a Confucian scholar, while I am away from my country, I feel like I am walking toward my roots, as, in contrast to its rapid economic growth, China is in desperate need of improvements to its academic and cultural education. I now work in a capitalist country, rather than just for a capitalist. However, my father seems a bit happier that I am on the "right track" as an academic, not a businessperson.

My four years of study have been vital to me. Having worked in the "real" world for 27 years and travelled between the "real" and "cognitive" worlds over the past four years, I have transformed from a "Westernised Chinese woman" to a "borderless human," embarking on a journey to discover a better way for people from various countries and cultures to live and work together. Confucius said, "At 40, I came to be free from doubts." In my late 40s, I definitely came to be free from doubt about cultural and social compatibilities between China and the West; this research will be worth the effort if it can do the same to the audience.

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Finally, I would like to express a deep sense of gratitude to my parents, from whom I have inherited the spirit of true intellectuals; that is, to endure self-cultivation and reflection academically, and culturally to produce knowledge and insight for social progress. Special thanks are due to my one and only loving sister Tian Wang, who always supports and stands by me in all situations. My heartful thanks to my only daughter Yuxiao, who has not only a working mother but also a studying one. She is unbelievably sensible, supportive, and loving. I love her so much!

DECLARATION

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ABSTRACT

Many scholars have addressed the important role that *guanxi* plays in the Chinese social-economic system. *Guanxi* is widely accepted in academia as an indigenous construct from China—deeply rooted in Chinese culture and reflected in the behaviour of Chinese people in both the social and institutional environment. During the growing globalisation of Chinese multinational companies, Chinese expatriates have increasingly taken up international assignments and inevitably carried Chinese *guanxi* to the host country. Research on *guanxi* in China has been intense. However, how the employees of Chinese multinational companies employ *guanxi* in the West, how Chinese expatriates develop and use *guanxi* in the host country, and how these behaviours affect their adjustment remain unclear. My dissertation contributes to this line of study in three ways. I first examined *guanxi* capitalism theoretically to highlight the features of China's economic system embedded deeply in its cultural-social-political environment and to explore how *guanxi* emerged, evolved, and subsequently dominated the economic system in China. Based on this analysis, I developed a conceptual framework of the "*Guanxi* capitalism structure" to illustrate the fundamental role of *guanxi* as the "invisible hand" in China. Next, I examined empirically how *guanxi* practice affects intra-firm multicultural group dynamics involving Chinese expatriates, host-country nationals, and host-country Chinese in Chinese multinationals. My study shows how expatriates actively practice *guanxi* with their homeland counterparts, but they do not do so with host-country nationals and host-country Chinese, and it explores the implications of these dynamics. Finally, I examined the impact of *guanxi* building on Chinese expatriate adjustment. Based on my analysis, I developed a process model that illuminates that *guanxi* development alters expatriates' adjustment curve significantly. My findings contribute more generally to shed light on cross-cultural management in terms of Chinese *guanxi*

practice and the process of initiating, building, and utilizing *guanxi* in the Western context.

Key words: *Guanxi*, *guanxi* capitalism, g*uanxi* circles, Chinese MNCs, *guanxi* practice, *guanxi* building, expatriate adjustment, intergroup dynamics.

ABBREVIATIONS

CE:	Chinese Expatriate
CMC:	Centrally Managed Capitalism
DMA:	Differential Mode of Association
FCR:	Five Classified Relationships
HCC:	Host Country Chinese
HCN:	Host Country National
IA:	International Assignment
JV:	Joint Venture
MNC:	Multinational Company
SOE:	State-Owned Enterprise

1. INTRODUCTION

This research was motivated by the increasing globalisation of Chinese multinational companies (MNCs), which has had a significant impact on European economies and society. In 2016, according to Mitchell, Chazan and Weinland (2017), Chinese investment in Europe reached a record €35.1bn, an amount four times greater than the investment by European companies in China. The rising economic and political power of China has created great interest in Chinese business practices in the West. Since the beginning of the twenty-first century, the surging globalisation of Chinese firms has inspired numerous studies on the social and cultural challenges that are faced during the internationalisation of firms from developing countries to the West (Boisot & Meyer, 2008; Buckley, Cross, Tan, Xin, & Voss, 2008; Child & Marinova, 2014; Child & Rodrigues, 2005; Child & Tse, 2001; Cooke, 2012). In particular, Zhou, Wu and Luo (2007) noted that some Chinese investments and mergers and acquisitions in Europe failed because of internal management challenges arising from the relationship between Chinese management and local employees, and they argued that *guanxi* mediated the relationship between inward and outward internationalisation and firm performance.

Guanxi is widely accepted in academia as an indigenous construct from China, deeply rooted in Chinese culture, and reflected in the behaviour of Chinese people. According to a widely accepted definition, *guanxi* is "the closeness of a relationship that is associated with a particular set of differentiated behavioural obligations based on social and ethical norms" (Mao, Peng, & Wong, 2012: 1143).

The conceptualization of *guanxi* originates from the five relationships (*Wulun*) classified by Confucius (Farh, Tsui, Xin, & Cheng, 1998; Wong & Huang, 2015, Yao, Arrowsmith, & Thorn, 2016). It is articulated in the quote on page 3 of this thesis from Mencius (372–289 BC), the principal interpreter of Confucianism who is

often described as the "second sage" after only Confucius himself. The human moral relationship, that is, *guanxi*, is classified in accordance with the hierarchy of social status, which carries moral values such as obligation, reciprocity and affection. Confucius took as his highest ideal a society of people living in moral harmony, which, rather than the legal system, is the basis for peace in society (Lin, 1938). *Guanxi* has therefore guided the social behaviour of the Chinese for more than two millennia (Chen, Chen, & Huang, 2013; McNally, 2011; Zhang & Zhang, 2006), inducing the eminent Sinologue Lin Yutang (1938) to remark that the thoughts of Confucius were as vital in Lin's own time as they had been 2,500 years ago. Building on these ideas, *guanxi* is defined in this thesis as the hierarchical human moral relationship derived from Confucian ethics for the purpose of reciprocity, obligations, and the mutual benefit of all actors in the inner circle. It is based on social and ethical norms and is the "invisible hand" that steers and synchronizes the political, economic and social systems of China.

Some studies (McNally, 2011; Tong, 2014) concluded that the practice of *guanxi* has prevailed in Chinese businesses largely because of the weak institutional system in China. However, Chen and Easterby-Smith's (2008) study on Taiwanese MNCs revealed that, although Taiwan benefited from legal institutions because of its earlier integration into the international economy through extensive American and Japanese investment, *guanxi* remains crucial to Taiwanese MNCs even as they become increasingly internationalised, with employees in host countries. There have been studies of *guanxi* at both the individual and the organisational levels (Chen, Eberly, Chiang, Farh, & Cheng, 2014). However, these studies have mainly been conducted in China. My study is one of the first to explore the indigenous Chinese *guanxi* in the Western context.

Overview of thesis

On the basis of their integrated review of research on *guanxi*, Chen et al. (2013) concluded that *guanxi* tends to be a mixture of family and non-family, personal and impersonal, and expressive and instrumental characteristics. The word *guanxi*, according to them, reflects the richness, flexibility and complexity of the Chinese language. This richness is reflected in the three main aspects of *guanxi* examined by past research: the basis of *guanxi* (pre-existing particularistic ties between two interacting parties), the quality of *guanxi* (different levels of trust, interdependence and obligation between parties with *guanxi* and parties without, or between strong and weak *guanxi*), and the dynamics of *guanxi* (strategies, practices and processes). This dissertation focuses on the dynamics of *guanxi*, which are explored in one conceptual paper (Chapter 2) and two empirical papers (Chapters 3 and 4).

Chapter 2, **Business Networks and the Emergence of *Guanxi* Capitalism in China: The Role of the "Invisible Hand"**, is based on a conceptual paper co-authored with Chris Rowley and published as Chapter 5 of an edited book entitled *Business Networks in East Asian Capitalisms* (Nolan et al., 2016). It discusses the fundamental role of *guanxi* in China through its conceptual development, based on previous studies. In this chapter, we address the important role that *guanxi* plays in the Chinese socioeconomic system, and introduce the notion of *guanxi* capitalism – defined as an economic and political system generated by *guanxi* practice in Chinese business organisations. We use the term *guanxi* capitalism to refer to the particular way in which Chinese business organisations (especially large and state-owned ones) are currently managed, rather than to the political economy of mainland China. By reviewing past research on Chinese business and business history, and by elaborating on the "Five Classified Relationships" (*Wulun*) of Confucian ethics, we explore how *guanxi* capitalism emerged, evolved, and subsequently came to dominate Chinese business practice. We develop a conceptual framework of the structure of *guanxi*

capitalism by building on the differential mode of association (*chaxugeju*) theory and using the concept of Centrally Managed Capitalism as well as the framework of a network of *guanxi* circles. These ideas illustrate the fundamental role of *guanxi* as the "invisible hand" shaping the Chinese economy.

Chapter 3, ***Guanxi* Practices in Intra-Firm Multicultural Groups: A Case of Chinese MNC Operating in Europe**, draws, by contrast, on an empirical study exploring intra-company *guanxi* practices in multicultural groups outside China. *Guanxi* practices are understood here as the use of these social relationships to make exchanges and accomplish tasks (Guthrie, 1998). This paper is based on an exploratory case study that follows a qualitative approach, given that little is known about *guanxi* practices in a multicultural context. I selected a large Chinese MNC (BY) as a case company, and studied six of its subsidiaries, located in France, Germany, Luxemburg, the Netherlands, Portugal, and the UK, which represent cultural and institutional diversity. Many scholars studied how *guanxi* plays a key role in China's cultural, social and political environment. Less is known, however, about how the employees of Chinese MNCs employ *guanxi* in the West. In contrast to the common assumption that all Chinese people tend to use *guanxi* to handle social relationships, this study reveals that while Chinese expatriates (CEs) actively practice *guanxi* with their homeland counterparts, they do not do so with HCNs and HCC; no such activities were observed between the last two groups. The emergent model describes how the practice of *guanxi* affects intra-firm multicultural group dynamics through the process of out-group activation, the formation of a superordinate group, and in-group prototyping.

Chapter 4, **Developing *Guanxi* in the West: Chinese Expatriates' Adjustment in Europe,** is a second empirical paper examining, in Chinese multinationals operating outside China. the building of extra-company *guanxi* in the process of building trust between parties (Chen & Chen, 2004). I employed a qualitative

approach by conducting 25 semi-structured in-depth interviews in the informants' native language, Mandarin, each lasting between 40 and 90 minutes, and analysing the data through grounded theory building by coding to develop ideas, concepts and themes. As China's global presence continues to grow, CEs have increasingly taken up international assignments around the world. Research on how expatriates adjust to their assignments, however, has overwhelmingly been conducted on western expatriates, and its applicability to CEs remains unclear. This chapter examines how CEs in five European subsidiaries of a large Chinese MNC develop and use *guanxi* in their host countries, and how this affects their adjustment. This chapter differs from the previous one because it focuses on the building of extra-company *guanxi* in Chinese multinationals, whereas the previous one examines intra-company *guanxi* practices.

Taken together, the three chapters explore the origin of the indigenous Chinese *guanxi* and its dominant role in forming the business system known as *guanxi* capitalism in Chinese MNCs. The chapters consider how, during globalisation, *guanxi* has been practiced and developed in a Western context, as well as its impact on intra-firm multicultural group dynamics and the adjustment of CEs. I aim to submit Chapters 3 and 4 for publication to the *Journal of International Business Studies* and *Management and Organisation Review*.

2. BUSINESS NETWORKS AND THE EMERGENCE OF *GUANXI* CAPITALISM IN CHINA: THE ROLE OF THE "INVISIBLE HAND"

INTRODUCTION

The continuously growing importance of China's economy can be seen in its rapid growth and the establishment in 2015 of the Asian Infrastructure Investment Bank (AIIB) to support the building of infrastructure in the Asia Pacific region, as well as the renminbi's joining the elite basket of international currencies (United Nations, 2015). This has partly driven concern about global economic governance (United Nations Financing for Development Office, 2015). Given these circumstances, there is an urgent need to better understand China's political and economic system. I undertake this task by grounding developments historically and developing the idea of so-called *guanxi* capitalism.

The concept of the indigenous Chinese social-cultural phenomenon *guanxi*—a notion that is similar to Western-termed interpersonal relationships or social networks but possesses much broader implications— has been widely accepted in academia (Ambler, Styles, & Xiucun, 1999; Barnes, Yen, & Zhou, 2011; Chen & Chen, 2004; Chen et al., 2013; Chua & Wellman, 2015; Fan, 2002; Fan, Woodbine, & Scully， 2012; Farh et al. 1998). Despite its traditions, whether the *guanxi* phenomenon would continue to prevail alongside today's globalisation and modernization of Chinese companies and society has provoked a wide-ranging debate (Hsu & Saxenian, 2000; Kwock, James, & Tsui, 2013; Luo & Chen, 1997; Lu & Reve, 2011; Michailova & Worm, 2003; Zhang & Zhang, 2006).

This chapter examines *guanxi* capitalism in order to reveal the features of Chinese business organisational system embedded deeply in its cultural-social-political

environment of mainland China. I will explore how *guanxi* capitalism emerged, evolved, and dominated the business practice by reviewing Chinese business history, understanding attitudes toward business, and elaborating the "Five Classified Relationships" (FCR) (*Wulun*) of Confucian ethics. The aim, therefore, is to develop a conceptual framework of the *guanxi* capitalism structure, building on the theory of differential mode of association (DMA) (*Chaxugeju*) developed by Chinese sociologist Fei (1992) and using the concept of Centrally Managed Capitalism (CMC) (Lin, 2010) as well as the framework of network of *guanxi* circles (Wong & Huang, 2015). This framework illustrates the fundamental role of *guanxi* as the "invisible hand" in China.

Guanxi capitalism has been fiercely debated since Hamilton (1989) first deployed the term in his study of political economies in Taiwan. Other scholars (Borja, 2014; Liu, Noel, Rollins, & Gao, 2014; Peck & Zhang, 2013) have addressed the important role that *guanxi* plays in the Chinese socioeconomic system. Nevertheless, how and why *guanxi* capitalism emerged in China is somewhat underplayed in the literature. This chapter develops a conceptual framework of the *guanxi* capitalism structure based on an analysis of Confucian ethics in the FCR (*Wulun*) and DMA (*Chaxugeju*) and using the concept of CMC and the framework of a network of *guanxi* circles. In debating the origin of *guanxi*, some scholars have contended that the FCR constitute the basic norms of *guanxi* (Fei, 1992; Hwang, 1987; Nuang, 1992; Wong & Huang, 2015), and Fei (1992) conceptualized DMA to illustrate *guanxi* extended from the kinship system. Thus, Wong and Huang (2015) developed the framework of a network of *guanxi* circles. Therefore, I further develop the notions of "*guanxi* knot" and "*guanxi* web," which I believe provide the foundation of CMC.

Weber (1920, p. xxi) claimed that "greed for gain" is "as old as the history of man," which includes the "*greed* of mandarins in China." He further emphasised the crucial role of cultural values, in particular the significant impact of Protestant ethics as the "spirit of capitalism" and organisational life in the West, where capitalism is carried by powerful

social networks consisting of both commercial elites and self-made parvenus (Weber, 1920). In China, *guanxi* was derived from Confucian ethics on human relationships, which underpin the Chinese socio-political structure (Chen et al., 2013; Dunning & Kim, 2007) and have been carried into capitalism. The spirit of capitalism is formulated and cultivated by *guanxi* holders, who comprise influential people at all levels of the social and political hierarchies, it is an economic and political system generated by *guanxi* practice in Chinese business organisations.

Since Kanter (1995) identified the three assets of the global economy (concept, competition, and connection), developing networks have become seen as among the competitive advantages for Western multinational companies (MNCs). This is of particular importance for their endeavours in China, where *guanxi* capitalism has become the root of business. Business networks in China are underpinned by a variety of weak to strong links that range from the formal to the informal, such as *guanxi*. Studies (Ambler Styles & Xiucun, 1999; Chua & Wellman, 2015; Fan, Woodbine, & Scully, 2012) have validated the importance of *guanxi* as a systemic *modus operandi* in understanding the role and functions of networks in Chinese business culture.

Guanxi, a network featuring "face-to-face" and "face-for-face" interpersonal relationships, has been one of the most crucial elements of Chinese culture and remains relevant, although the "dark side" (corruption-related) of *guanxi* has been acknowledged. Despite the fact that capitalism has been embraced since China reopened to the world in the 1980s and that the current economy is termed "state capitalism," the ideology of the Chinese Communist Party toward business is derived from Marxism as well as an historically biased view. Nevertheless, because pragmatism is a key component of Chinese culture and because of the psychological justification initiated by Mao Zedong—"apply ancient knowledge into current practice, apply Western knowledge into Chinese practice" (Mao 1968, p.117)—*guanxi* capitalism has emerged as one of the recognized Chinese characteristics of economic development.

McNally (2011) argued that *guanxi* capitalism realigns the interests of the state and capital in China and bridges the divide between freewheeling capitalist accumulation and authoritarian control prevalent in a state-dominated economy. McNally (2011) was able to evaluate China's economic transition and avoid the more common and narrower understanding of capitalism. For this reason, he proposed that as far as his primary observations were concerned, China was generating a "new" form of capitalism.

Despite Confucianism having been marginalized since the New Cultural Movement in the 1920s and vilified during the Cultural Revolution of the 1960s (Zhang & Schwartz, 1997), in 2005 a campaign of Confucian "Harmonious Society" (Zheng & Tok, 2007) was launched by the Chinese government to establish social order by emphasizing cultural values and social responsibility, since increasing economic disparity in the country was endangering the stability of the state and social morality. In particular, Chinese President Xi Jinping has so elevated Confucianism that he convened a "collective study" session of the ruling Politburo at which he said that traditional culture should act as a "wellspring" to nourish the Party's values. In 2013, Xi paid homage at the Confucius temple in Qufu (Confucius' birthplace), and he is the first party chief to have attended a birthday celebration for Confucius, born 2,565 years ago (*The Economist*, July 2015).

CHINESE BUSINESS HISTORY

One of the challenges in understanding Chinese businesses is that some neglect the importance of history, making them impossible to fully understand. Tong (2014, p. 5) quoted Berger and Luckmann: "Institutions always have a history of which they are products. It is impossible to understand an institution adequately without an understanding of the historical process in which it is produced." In terms of history, we

can place analysis within the older and wider theories and debates around convergence-divergence, models of capitalism, varieties of capitalism, business systems and globalisation, etc. For example, universalism's convergence versus contingency's divergence concerns the central proposition of a possible global tendency for political, social, and economic forces to push toward uniformity of systems and practices. Such views have a long antecedence (e.g., Kerr, Dunlop, Harbson, & Myers, 1962) and regularly re-emerge. Earlier ideas of the "best way" include, *inter alia*, scientific management and Fordism in the US, indicative planning in France (1960s), corporatism in Scandinavia (1980s), lean production, Toyotism and Japanisation (1990s), post-Cold War prescriptions and in the excellence and flexible specialization literatures (Rowley, 1994).

Such universalistic ideas are seen in the globalisation debate with its singular world view of market unification and institutional convergence, leading to the "one best way" for a range of areas. Theories from different disciplines seek to explain globalisation: global capitalism, network society, space and place, transnationality and transnationalism, modernity and postmodernity, and global culture and world-systems (Robinson, 2007). For example, the multidisciplinary world-systems theory (Wallerstein, 1974, 2004) does not emphasize nation-states but rather historical processes as they unfold over time and key moments, as well as that the world-system is a social reality comprising interconnected firms, households, classes, and identity groups. However, world-systems simplistically collapse cultural forces into political systems, although the independent influence of cultural forces cannot be reduced to different characteristics of political systems (Robinson, 2007).

Universalism has many sceptics, producing a literature with a similarly long lineage (Hofstede, 1980, 1984; Lawrence & Lorsh, 1967; Woodward, 1965). For example, comparisons of the UK with other economies have often found national differences in areas such as business organisation and structure, management, technology utilization,

etc., including not only with Japan (Dore, 1974) but also with Germany and France. Similarly, the system, society, and dominance theory (Smith & Meiksins, 1995) organized influences on work organisation such as production modes, institutional patterns, best practice, or universal modernization strategies. This argued convergence was unlikely, as structural pressures were conveyed through national histories and cultural contingencies. Indeed, mediation of local actions through traditions at a national level meant that rounds of institutional change were built on, resulting in place-specific recombinant formations, each with its own distinctive properties (Sorge, 2005).

Other historically grounded views of the contingency type can be seen in modes of exchange (Lie, 1992) with its "manorial," "market," "entrepreneurial," and "mercantile" exchanges. Then there is the capitalist variety (Hall & Soskice, 2001; Hancke, Rhodes, & Thatcher, 2007) and comparative capitalism (Berger & Dore, 1996; Boyer, 2005; Coates, 2000; Crouch, 2005; Kitschelt, Lange, Marks, & Stephens, 1999) literatures that distinguish various different types of capitalisms. These include "stock market" and "welfare" (Dore, 2000); "competitive managerial," "personal," and "cooperative managerial" (Chandler, 1990); "liberal" and "alliance" (Gerlach, 1992); "neo-American" and "Rhinish" (Albert, 1993); "managerial," "propriety," and "collective" (Lazonick, 1990, 1991, 1998); "market-based," "social-democratic," "continental European," "South European," and "Asian" (Amable, 2003). A fivefold typology of Asian capitalism diversity presented by Harada and Tohyama (2012) included "city" (Singapore, Hong Kong), "insular semi-agrarian" (Indonesia, Philippines), "innovation-led" (Japan, Korea, Taiwan), "trade-led industrializing" (Malaysia, Thailand), and "continental mixed" (China). And Whitley (1999) theorized about three types of North East Asian capitalism: "fragmented," "state-organized," and "collaborative." Another identified type is "variegated capitalism," concerned with the combined and uneven development of capitalism "and the polymorphic interdependence of its constituent regimes" (Peck & Theodore, 2007, p. 733).

Other related models of relevance include business systems (Redding, 2005; Whitley, 2007, 2014). Whitley (1992) used a threefold framework of variation of impacts from firms (management styles and structures, decision-making processes, owner-employee relations, patterns of growth and development); markets (customer, supplier and inter-firm relations, financial sector, and market and industry development); and societies (social influences on business evolution such as education, systems of power, and status and family structures) to examine Asia (Japan, Korea, Taiwan, and Hong Kong). Witt and Redding (2014, p. 686) argued that theories needed to incorporate social capital, culture, informality and "multiplexity," and "variations in the extent of informality in a business system and its interplay with formal institutions." By social capital Witt and Redding meant trust—both interpersonal or relational trust as well as institutionalized or system trust (with triple components: control, trust, and morality). Their framework included the role of the state, financial system, ownership and corporate governance, internal structure of the firm, employment relations, education and skills formation, inter-firm relations, and social capital. This framework has been used to analyse countries, including Vietnam (Truong & Rowley, 2014).

The current principles guiding business and daily life in the West have evolved from ancient Greek philosophies, which originate from a different ideological root than that of the Chinese. Indeed, "The ancient Chinese and Greek philosophers not only lived under different geographic conditions, but different economic ones as well" (Fung, 1948, p. 17). Because it is a continental country, agriculture was the dominant economy in China for thousands of years, and so from a social and economic perspective, agriculture was the "root" and commerce or business the "branch." Therefore, throughout millennia of Chinese civilization, sociocultural norms and economic systems have all tended to emphasize the root and slight the branch (Graham & Lam, 2003), a doctrine of "pro-agriculture and anti-commerce" that originated in the Qin Dynasty some 2,200 years ago.

Consequently, business people dealing with the “branch” were at the bottom of the social class after scholars, farmers, and artisans.

The first commercial activities emerged in China around 475 BC, and the privatization of land was first institutionalized in 216 BC. The beginnings of industrialization were developed around 221 BC during the Qin Dynasty, when China was unified by Emperor Qin Shihuang. The new empire, with a unified written language, currency, measuring system, and bureaucracy, facilitated business activities across all regions in China (Qian, 2013). Beginning in the Han dynasty (206 BC–220 AD) and until the 1450s, the Silk Road facilitated business from China to the West, largely through the missions and explorations of Chinese imperial envoys. Trade on the Silk Road was a significant factor in the development of the civilizations of China, the Indian subcontinent, Persia, Europe, the Horn of Africa, and Arabia, opening long-distance political and economic relations among them. In addition to facilitating economic trade, the Silk Road served as a means of carrying out cultural exchange among the civilizations along its network (Bentley, 1993). The Tang Dynasty (618–907) was the most open era (until three decades ago) in Chinese history, welcoming merchants and entrepreneurs from Persia, Rome, Arabia, and India.

When the British broke down the door of China in 1840 by winning the Opium War, a group of Chinese intellectuals appealed for changing the “anti-commerce” mind-set and for strengthening and saving China by boosting commercialization. They proposed the adoption of the practices of Western capitalism and industrialization. In 1903, the Commerce Ministry was established and commercial law was enacted. The first generation of national capitalists was created and was expected to save China from poverty and the oppression of foreign countries. Most of them were from land-owning families and were well educated; the merchant had ascended to second place, next to the scholar. However, this did not last (in mainland China, anyway). In 1949 Mao Zedong

came to power, implementing Marxist socialism and exiling the business community from China.

When Deng Xiaoping took control in 1978, he implemented a “socialist market economy with Chinese characteristics.” He encouraged common people to pursue individual wealth through a pragmatic approach as he said, “I don't care if the cat is black or white, so long as it catches mice." (The Guardian, 2008)” Another phrase of his was “Cross the river by touching the stones,” which implied that there was no common business practice or culture to follow at that point.

As illustrated in Table 2.1, given the anti-commerce mind-set embedded in Chinese society for more than 2,000 years, the concept of Western-termed business is still relatively new to the Chinese. In spite of the economic growth in China over the past three decades, positions in the leading class are still not open to members of the business community.

Table 2.1: Evolution of Business Concepts in China

Stage	Anti-Commerce	Infancy of Capitalism	Anti-Capitalism	State Capitalism with Chinese Characteristics
Time	500 BC–1903 (2,403 years) Imperial China	1903–1948 (45 years) Semi-feudal and semi-colonial	1949–1977 (28 years) 1966-1976 Cultural Revolution	1978–present (36 years) Reform and opening up
Main ideology	Confucianism	Confucianism Capitalism	Socialism	Socialism Capitalism Confucianism
Leading class	Aristocrat Scholar-officials	Anarchy	Military/worker-official	Scholar-officials
Social status	Businesspeople ranked at the bottom of the social stratum	- Established Ministry of Commerce - First generation of national capitalists emerged from landlord background - Business class ascended to second place next to the scholar	- Business and business class were ruined completely - Planned economy	- Business and economic development is the top priority - From planned economy to market economy - Government plays the key role - State-owned enterprise is most privileged among all business organisations

Derived from Fung (1948) and Qian (2013)

ATTITUDES TOWARD BUSINESS

Notwithstanding the history of business in China, there were complex attitudes toward business, derived from Chinese traditional schools of philosophy. Daoism was against materialism, and one faction of Legalism strongly opposed commercial pursuits. A Confucian planned economy dominated in Imperial China, despite the concerns of Sima Qian (135–86 BC), a Chinese historian of the Han dynasty who advocated a free and individualized economy (Qian, 2013). Confucianism highly praised agricultural activities but mentioned no business life, as "Confucius seldom spoke of profit, destiny, and benevolence" (Analects C9). He further spoke of associating "profit" (the purpose of business) with "the small man" (vulgar man):

> While the gentleman cherishes virtue, the small man cherishes the property. While the gentleman cherishes the legality, the small man cherishes the profit. (Analects C4)
>
> If one acts with one's own profit, there will be much resentment. (Analects C4)
>
> The gentleman knows what is right, the small man knows what is profitable. (Analects C4)

In Confucian society the conviction of "scholarly/official superiority" steers people to pursue higher education in order to get a position in the government. Even though the legendary Tao Zhugong (517–? BC) is considered the first businessperson in China and prototyped as the "Money God" (*Cai Shen*), his leaving a high-ranking position for business was to avoid a dispute at court and potential murder by the king. Even now the ultimate promotions and rewards for the Chinese are the top positions and ranks in the party and the state in Beijing (Lin, 2010). The loyalty of corporate executives is ultimately to the party and the state, not to the board of directors, shareholders, or stakeholders. For example, "Of course, one significant criterion for being promoted is

performance in the marketplace. In this manner capitalism is linked to rewards in the political realm as well" (Lin, 2010, p. 76).

Thanks to the economic growth over the past three decades, the business community has grown rapidly, and some successful business leaders are admired enormously by some.[i] Business studies is the first academic choice by many college students, and the MBA/EMBA market has been overheating for a decade. However, many entrepreneurs still want their children to become scholars first and then inherit their business as a second choice. "No businessman trades without fraud" is still somehow deeply rooted in the Chinese subconscious. As a result, business organisations classify themselves into four hierarchies, which are, in order of status (Wang & Chee, 2011):

- State-owned enterprise (SOE): led by government, with the chairman or CEO also serving as an official who should be an expert in some academic field or at least have a higher education degree.
- Western MNCs and JVs: possess advanced technology from the West and are superior in business savvy and management practices.
- Chinese private companies and small- and medium-sized enterprises: established by former officials or scholars, who reach success in the political or academic field and then manage their private business, strongly connected with government.
- Chinese family business: established by non-intellectuals, the undereducated entrepreneurs from the grassroots.

The current social society is implicitly structured by tiers: scholar, businessperson, worker, and farmer. A large number of government officials therefore rush to get master or PhD degrees.

CONFUCIAN ETHICS

Due to the holistic character of the Chinese Yin–Yang culture, there are no clear boundaries among the political, economic, and social apparatuses in human life; as a whole, it is guided by a general principle, which is Confucian ethics (Fung, 1948). Confucius created a rational and humane ethical system, as opposed to a legal institution, to govern and stabilize the country by mobilizing rather than repressing people's emotions. Accordingly, he established a comprehensive ritual procedure (礼) for people to follow the *formal* rules and instituted human ethical relations (人伦) as a basis for *informal* personal interactions. Therefore, the Western-termed rational and logical economic system does not apply to China. Rather, *guanxi* capitalism is the indigenous and highly dynamic system integrated and intertwined with both rational and emotional variables, which is the most effective if not the best way to operate in China.[ii]

As Bertrand Russell (1961, p. 41) stated, "To understand an age or a nation, we must understand its philosophy." In addition, the Chinese philosopher Fung (1948, p. 7) stated in *A Short History of Chinese Philosophy*, "The Chinese philosophy, regardless of its different schools of thought, is directly or indirectly concerned with government and ethics about daily functions of human relations, not hell and heaven; with man's present life, but not his life in a world to come." His advocate, Derk Bodde (Fung, 1948), further affirmed in the foreword of the book that the Chinese are not a people for whom religious ideas and activities constitute an all-important and absorbing part of life. Historically it is ethics (especially Confucian ethics) and not religion that provided the spiritual basis in Chinese civilization and nurtured Chinese institutions and culture.

The Confucian system of ethics is the fundamental motivation of all Chinese pursuits, in life and in society, and it has been embedded in civilization for two millennia. This is the philosophical root of doing business: following the ethics of the "rule of man" rather than the "rule of law" is common business practice for firms. In other words,

decision making through complex social processes engenders an institutional environment constructed by *guanxi*. In general, ethics driven by *guanxi* rather than law determines the way of doing business.

The Chinese philosopher of neo-Confucianism, Liang Shuming (1893–1988), encapsulated two main differences between Chinese and Western national characteristics. Chinese society is one in which "individual interacts with individual" (Liang, 2010, p. 171) based on "personal ethical emotions and lofty ideals" (p. 172); Western society is one in which people "interact with things" (p. 172) based on "scientific technology and social organisation" (p. 173). Wang (2008) noted that there exists a union of emotions and reason in Confucian ethics. According to Confucians, the ethical significance of emotions lies in the point that an ethical life is also emotional, and virtues are inclinational, which constitutes a challenge to Western ethical theories engaged in seeking justifications for abstract moral rules.

Warner (2004) noted that China's national identity is thus deep-rooted in its history and culture. Every day the Chinese media feature a reference to historical analogies or precedents, whether in business, economics, or management. Viewed from another perspective, the miracle of China has been its astonishing unity. The key reason is due to the coherent Confucian culture. Many scholars, such as *inter alia* Styles and Ambler (2003), Lin (2011), and Warner (2004), have noted that Confucianism has actually developed from the interactions of a single ethnic group, the Han people, which has largely distanced itself from other ethnic groups for many centuries. According to the census in 2011, 91.51% of the population in China is ethnic Han. Han culture has been dominant in China for many thousands of years, and it can be regarded as synonymous with Chinese culture. Despite two dynasties (Yuan and Qing) being ruled by minorities (Mongolian and Manchu), the ruling class has embraced Han culture completely and governed the country following mainly Confucian ethics.

Two prominent Chinese philosophers, Fung Yu-lan (1948) and Wei Zhengtong (2009), emphasised the important social and political role that family plays in China given the agricultural nature of the country and its Confucian culture. In imperial China, as an agriculture-oriented country, scholars, who are landlords, and farmers were the driving force for social and economic development, and both of them must live on their land, which is immovable. Also, the whole family of several generations needed to live together for economic reasons, from which the Chinese family system has developed. Confucius made tremendous efforts to rationalize and theorize this social system, which is "one of the most complex and well-organised in the world" (Fung, 1948, p. 21). The family apparatus has been adopted naturally in both sociocultural and political-economic systems and has facilitated the synchronizing of these two systems. Hence, Confucianism became the orthodox philosophy in imperial China and has remained as such into the present time.

Confucius and Aristotle shared the similar theory of the family as a model for the organisation of the state. It either explains the structure of certain kinds of state in terms of the structure of the family (as a model or as a claim about the historical growth of the state), or it attempts to justify certain types of state by appealing to the structure of the family. Yet Aristotle drew a sharp distinction between the *economic* relationships of the family and the *political* relationships of the state (Schochet, 1975), while Confucius integrated the relationship of family and state. The Chinese word for state is composed of two characters (国家), which are literally "state" and "family," because only the notion of family can evoke the sense of belonging in Chinese people.

"Five Classified Relationships" (*Wulun*)

The Confucian ideal is to harmonize the world by passing through each stage of cultivating self, regulating family, and governing the state. A stable state and harmonious society is based on regulated families, where each member self-cultivates obedience to

the rule of the FCR (*Wulun*, 五伦), which are those relationships between: 1) ruler and subject, 2) father and son, 3) elder and younger brother, 4) husband and wife, and 5) friend and friend. Three of these are direct family relationships; however, the relationship between ruler and subject can be conceived as that between father and son, and that between friend and friend can be conceived as that between brothers (Fung, 1948). The rules are described (Mencius, 2004) as that in relations between father and son, there should be affection; between ruler and subject, there should be duty; between husband and wife, attention to their separate functions; between old and young, a proper order; and between friends, trust.

Different rules are applied in accordance with the classification of relationships, and so we use the term FCR. Confucian ethics is embedded in social life as well as institutionalized for governing the country. The FCR are the essence of Confucian ethics, which determines that the Chinese have a strong sense of self-needs and dyadic personal relationship within the family as an in-group, but not with an out-group, such as state, society or organisations. There is no relationship between an individual and an out-group. Barkema, Chen, George, Luo, and Tsui (2011) indicated that collectivists also tend to make sharp distinctions between in-group and out-group members among the Chinese, which reflects particularism rather than universalism (Schwartz, 1992). Thus, Chinese people typically believe that it is acceptable to treat people differently depending on their *guanxi* with themselves. The psychological contract of the Chinese is to be treated as "reasonable" rather than "fair." Chinese is neither a Western-termed collective nor an individual culture; rather it is particularistic and pluralistic.

Conceptualization of *guanxi*

The *guanxi* construct, therefore, originated from the FCR (Wong & Huang, 2015), which form the underpinning of not only the sociocultural but also the political-economic system in China. It would be challenging to build loyalty and trust in Chinese for any

relationship outside of the FCR, given that the "rule of law" has not prevailed in China. Hence, to establish business and raise capital it is necessary to go through *guanxi*.

Summarizing previous studies (Chen & Chen, 2004; Chen et al., 2013; Chua & Wellman, 2015; Dunning & Kim, 2007; Fan, 2002; Fan, 2012; Hsu & Saxenian, 2000; Kwock et al., 2013; Luo & Chen, 1997; Lu & Reve, 2011; Michailova & Worm, 2003), the difference between Western-termed interpersonal relationships and *guanxi* is illustrated in Table 2.2.

Table 2.2: *Guanxi* and Western Interpersonal Relationships' Evolution of Business Concepts in China

	Interpersonal Relationships/ Social Network	*Guanxi* (Differential Interpersonal Relationships)
Context	West	China
Social order	Equality, universal mutual respect	Particularity and differentiated love according to classification of personal relationships based on FCR
Social structure	Organisational mode of association	Differential mode of association
Social pursuit	Society benefit, teamwork	Family benefit, self-achievement
Social hub	Society/organisation	Individual/family
Interaction	Dyadic or multiple group	Dyadic, personal
Purpose	Reciprocate, neutral feelings, short-time, occasional meeting	Reciprocate, strong affections, long-term, periodical or frequent meeting

Differential mode of association (*Chaxugeju*)

Fei (1992) developed the concept of DMA (*Chaxugeju*) to distinguish Chinese social structure from Western "organisational mode of association" (*Tuantigeju*) and also noted that families in the West are organisations with distinct boundaries. However, the Chinese pattern "is like the circles that appear on the surface of a lake when a rock is thrown into it. Everyone stands at the centre of the circles produced by his or her own social influence. Everyone's circles are interrelated. One touches different circles at different times and places" (Fei, 1992).

In Chinese society the most important relationship is kinship, which is a social relationship formed through marriage and reproduction. The networks woven by marriage and reproduction can be extended to embrace countless numbers of people—in the past, present, and future. Each network is like a spider's web in the sense that it centres on oneself. Everyone has this kind of kinship network, but the people covered by one network are not the same as those covered by any other. The web of social relationships linked with kinship is specific to each person. "Each web has a self as its centre, and every web has a different centre. This pattern of organisation in Chinese traditional society has the special quality of elasticity" (Fei, 1992, p. 62).

This describes how *guanxi* is developed from one individual as a centre to expand in a circular form to facilitate the social process. Therefore, this social structure created the "egocentrism but not individualism" (Fei, 1992) in Chinese culture. Confucian ethics reinforces the central person of *guanxi* in the social order, which both public officials and private persons use to define the context of their actions (Fei, 1992). Therefore, in Confucian culture, the boundary between public and private is blurred. The concept of public is ambiguous; the state is seen as the emperor's family. Thus, "The state and the public are but additional circles that spread out like the waves from the splash of each person's social influence" (Fei, 1992, p. 63). Therefore, the whole society is connected by

guanxi circles. *Guanxi* is fundamentally self-centred and personal, which determines the sociocultural and political-economic dynamics in China.

Consequently, in order to balance self-interest and social responsibility, the starting point of Confucian ethics is the self-cultivation that is to subdue the self and follow the rites. From the Son of Heaven (the ruler) down to ordinary people, all must consider the cultivation of the person as the root of everything (Analects 2014) in order to inculcate the individual's value and conduct one's behaviour. Therefore, as Confucian ethics are all about human relationships, *guanxi* is embedded with ethical principles of filial piety, fraternal duty, loyalty, and sincerity according to its classification. Thus, "The degree to which Chinese ethics and laws expand and contract depend on a particular context and how one fits into that context" (Fei, 1992, p. 65).

From 1949 to 1978 China implemented socialism, which tried to move people's interests from individual and family to the Communist Party and build collective culture in a party-cantered society. In doing so, the government conceptualized "parent-like officials," a "big family of Socialism," and "brotherly and sisterly colleagues" to project "family roles" onto organisations and society, and, therefore, to stretch *guanxi* out of family boundaries and lay the psychological foundation to gain trust and loyalty. Up to the present, in many Chinese companies, a well-respected CEO would be considered a "father," colleagues with good *guanxi* call each other "brother" and "sister," and a successful organisation in China is the one that makes its employees feel they work if not for themselves at least for their families. Hence, the nickname of the president of China is "Uncle Xi."

THE FUTURE ROLE OF *GUANXI* IN BUSINESS

Leung (2008) noted that to understand the behaviour of Chinese people it is important to examine the interplay between contemporary social forces and traditional values and beliefs. Materialistic achievement may be more relevant for *economic* behaviour, whereas the *social* behaviour of the Chinese is still guided by traditional values and beliefs. *Guanxi*, one of the key cultural and managerial values exercised by Chinese managers, is, to some extent, the "best practice" of Chinese business and management, which has been studied extensively over the past two decades.

Guanxi is historically contingent and context dependent (Tong, 2014). According to his 25-year (1987–2012) research study on family business in China, Tong (2014) concluded that together with the economic rise of China, *guanxi* continues to play an important, if not greater, role in doing business there. Trust was the fundamental element of doing business between parties; in the West, the system of "the rule of law" would provide trust to both parties, but in China, the protocol of "the rule of man" provides trust through *guanxi*. Consequently, it is much easier in the West to establish business first without a personal connection, but it is much safer in China to have *guanxi* first before doing any business.

Fligstein and Zhang (2011) analysed the different viewpoints among scholars toward the role of *guanxi* in Chinese development. One group (Nee, 1989; Nee, Opper, & Wong, 2007) is sceptical about *guanxi* and believes that the Chinese government should try its best to remove it from the economy to enhance "the rule of law"; while another group provides reasons for *guanxi* to continue to play important roles in China's economic development. The advantages and disadvantages of *guanxi* are listed in Table 2.3.

Table 2.3: Pros and Cons of *Guanxi* Practice

Pros	Cons
Pivotal to the success of local economies and, particularly, to newly emerged private sector where there is relative lack of legal infrastructure and insufficient capital market structures and high institutional uncertainty during transition (Peng & Heath, 1996; Peng & Luo, 2000; Wank, 1999; Xin & Pearce, 1996).	As part of a process of profit-seeking whereby firms with the right connections can produce abnormal gains for themselves (Zhang & Keh, 2010).
Ties between firms and between entrepreneurs and government officials allow firms to successfully overcome barriers of old command system, gain access to critical resources, and find and exploit market opportunities (Krug & Hendrischke, 2008; Wank, 1999; Zhou, 1996).	Is about paying bribes in order to obtain good deals from transaction partners or to persuade government to help control competitors (Fligstein & Zhang, 2010).
Offers greater capacities for generating and transmitting new information (Boisot & Child, 1999). These scholars believe that social networks will accomplish this.	Often seen as an impediment to economic growth because it stifles competition, does not allow for efficient allocation of capital, prevents the right kinds of investments from being made, and leads to transaction breakdown due to opportunism (Luo, 2006).
To establish a happy life, harmonious organisation, stable society, and peaceful world (Zhang, 2014)	May disappear or decline as ties to the state are no longer needed to attain objectives (Guthrie, 1998).

The vigorous anti-corruption movement launched by the central government since 2013 has tried to enforce the rule of law approach in all aspects of Chinese life, including the legal, political, and business systems. Undoubtedly, the dark side of *guanxi* will be reduced to some degree; it might be the tipping point for a shift of business behaviour from following "the one you know" to "the *good* one you know." Nevertheless, the "human touch" (favour exchange) at a personal level will continue to endure in business to underpin *guanxi* capitalism, given the "official" reinforcement of Confucian values from the government.

For Confucius, filial piety was the first virtue a person must have, but in recent times this has begun to decline. In 2012, the local government in Zhejiang province made "filial piety to parents" as one of the promotion criteria for officials, and the national

government legislated that parents have the right to sue their children for visiting them too infrequently. No matter whether it aims to restore family relationships or project affection and obligation onto the "parent" of government, it is believed that such actions would improve the social order.

Yik (2010) argued that people from the Aristotelian cultural tradition (the West) tend to endorse an *independent* self-construal consisting of inner attributes that make an individual distinct from others—the mission is to become independent from others and to pursue personal goals. People from the Confucian cultural tradition (the East) tend to endorse *interdependent* self-construal, which is characterized by the belief that the self cannot be separated from the social context—*guanxi*. The self is embedded in circles of *guanxi* and people regulate their emotions and thoughts to fit the agendas of others. The ideal is to maintain harmony with others. Lee, Aaker, and Gardner (2000) suggested that people with interdependent self-construal are prevention-focused, that is they focus on information that prevents them from disturbing harmony.

THEORETICAL BACKGROUND

Centrally Managed Capitalism (CMC)

McNally (2013) argued that China's remodelled state capitalism represents a complex fusion of Western, Asian, socialist, and Chinese historical and modern elements, because China's historical background as both imperial and socialist frames its state-centric approach to economic management. Most fundamentally, China's emergent capitalism encompasses a unique duality of state-led capitalism juxtaposed with entrepreneurial *guanxi* capitalism. Top-down, state-guided development dominates, but bottom-up, a myriad of medium- and small-sized private firms have used entrepreneurial strategies to create highly flexible production and knowledge networks with global reach (McNally 2013).

Lin (2010) noted that China exhibited two unique features that are not usually identified with capitalism. First, the state itself acts as a capitalist, and second, economic activities are heavily embedded in *guanxi*. He then coined the term CMC for the continuously emerging economy in which China continues to develop capitalistic capacities, and the party-state increasingly tightens control of the economy and synchronizes political and economic stratification. The combination of state guidance with informal *guanxi* enables Chinese businesses to connect with each other and with officialdom at various levels and build trust and harmony for long-term mutual benefit and stability in both business and social aspects.

Network of *guanxi* circles

Wong and Huang (2015) applied Fei's "ripple effect" of Chinese *guanxi* circles to explore the underlying mechanism of *guanxi*. Their ISOLINK network of *guanxi* circles illustrated that *guanxi* circles link up, and this process continues until all the related similarities are utilized and all possible circles are connected. For example, as the circles of individuals are linked up, they become a bigger circle.

CONCEPTUAL FRAMEWORK: *GUANXI* CAPITALISM STRUCTURE

Referring to the previous analysis of rationale underpinning *guanxi* capitalism in this chapter and building on Lin's (2010) theory of CMC, in which political and economic stratification are synchronized, as well as Wong and Huang's (2015) network of *guanxi* circles, I develop the following framework of *guanxi* capitalism structure (see Figure 2.1) to explore the force of the *guanxi* dynamic on the socioeconomic system:

***Guanxi* holder**: the person who stands at the centre of circles produced by his or her own social influence (Fei, 1992).

***Guanxi* circle**: the group of people who are led by one g*uanxi* holder; the people in the inner circle have a closer relationship with the *guanxi* holder (Figure 2.1).

***Guanxi* knot**: interlinked *guanxi* circles influenced by the Tier 1 *guanxi* holder (Figure 2.2). It also is noted that in reality, *guanxi* knots may be less orderly than portrayed in the figure.

***Guanxi* web**: a dynamic system composed of numerous *guanxi* knots in which all *guanxi* holders constantly interact and change their tiers depending on circumstances.

Figure 2.1: *Guanxi* Circle

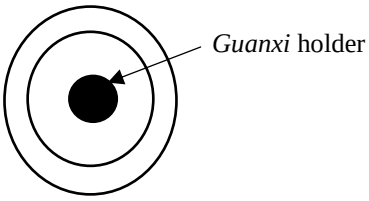


Figure 2.2: *Guanxi* Knot

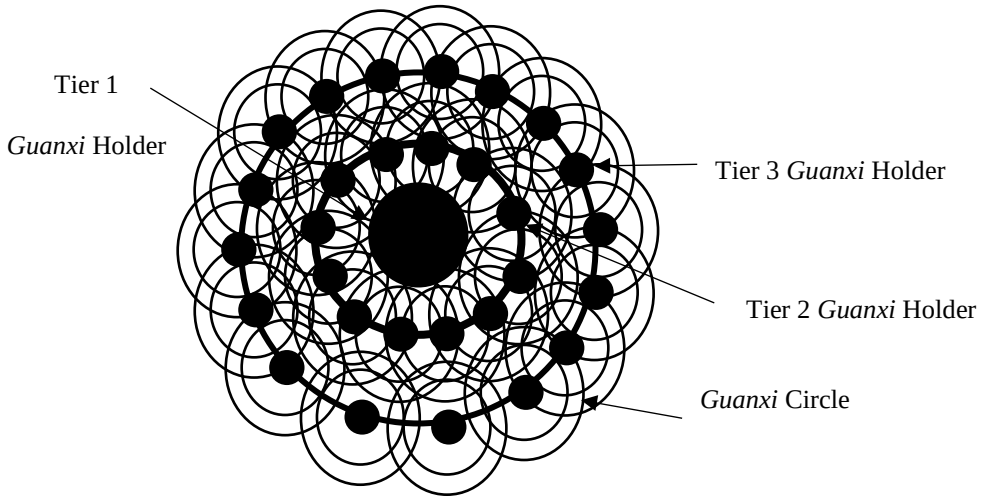
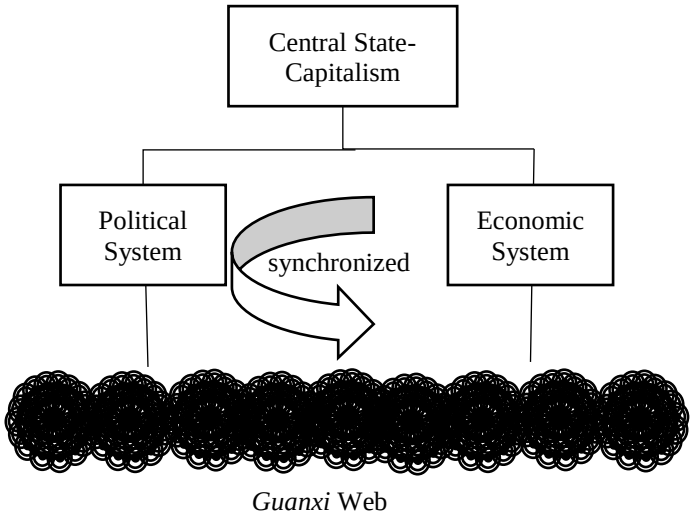


Figure 2.3 illustrates that under the central state system, the political and economic systems are synchronized through key players provided by the *guanxi* web rotating between two systems. The structure of the system is formal, but the key players are *guanxi* holders operating the systems to get things done through informal *guanxi* at a personal level. To achieve results, they need to go through both a *formal* process and hierarchy (Confucian rite) and an *informal* communication and interaction with *guanxi* (Confucian human ethical relations). Both political and economic systems in terms of structure and policy are slow to take effect, yet the *guanxi* web is highly dynamic with constant changes of personnel flow and *guanxi* holders. This results in a flexible and rapid response to external circumstances; however, it can give rise to unpredictable problems and inconsistencies in ethical standards.

Figure 2.3: *Guanxi* Capitalism Structure



The *guanxi* web is composed of numerous *guanxi* knots, which illustrates the "ripple effect" extending *guanxi* from the Tier 1 holder to the Tier *n* holder, and each holder can be Tier 1 or Tier *n* depending on who creates the ripple at a given time. *Guanxi* is a dyadic personal interaction, and each single *guanxi* movement involves two holders at a

time. The influencing or power of the Tier 1 holder will be reduced by passing through each circle, which requires constant maintenance of *guanxi* between adjacent holders.

Furthermore, as *guanxi* is conducted in the DMA according to the classification of relationships, the way to maintain *guanxi* is to treat each holder differently in terms of the layer of circles, which means the Tier 1 holder should keep the closest relationship and strongest intimacy with the Tier 2 holder. This might not seem equal or fair to holders of other layers of circles, but it would be reasonable and keep the entire *guanxi* web in equilibrium. However, if the Tier 1 holder has a closer relationship with the Tier 3/Tier *n* holder than with the Tier 2 holder, it might upset the Tier 2 holder and endanger *guanxi*. The equilibrium of the *guanxi* web is critical to stabilize the entire capitalism system, which requires each holder to follow the social order carefully to create harmony. *Guanxi* is the "invisible hand" in China.

CONCLUSION

I have looked at the development and conceptualization of *guanxi* capitalism in China. To help in this I have used the concepts and ideas of 1) the FCR, 2) DMA, 3) CMC, and 4) the network of *guanxi* circles in order to further construct the terms of *guanxi* knot and *guanxi* web to develop a *guanxi* capitalism structure concept.

Although it appears that China is highly centralized, in fact China is extremely diverse and very pluralistic and, in many ways, very decentralized (Jacques, 2012). It is almost impossible for the central government to control everything, given its 1.4 billon people spread over 30 provinces. In particular, on the surface it appears that formality governs all aspects of business due to Confucian principles, whereas in reality communications and activities are conducted through the informal *guanxi* web. Here, each holder has his or her own power under different circumstances, and the central

government or the headquarters of a business organisation acts as the Tier 1 holder and drives things through different tiers of holder inside *guanxi* circles.

Despite an awareness of the disadvantageous and dysfunctional elements of *guanxi*, the commitment to a more personal mode of management is still quite strong among Chinese businesspeople (Tong, 2014). Even though many Chinese firms have adopted Western management techniques by recruiting professional executives, nevertheless the fundamental rules of ownership, control, and decision making and the continued reliance on *guanxi* remain central in Chinese business practice.

Over the past 150 years, China has imported and implemented the Western ideologies of Marxism, socialism, and capitalism, which function in the economic and political domain to some degree but can disrupt social norms because of their aspects of counter-Confucianism. To catch up with the West, China grows like an adolescent with a Western appearance and an ancient yet troubled soul. The rehabilitation of Confucian values would help a great deal for those unsettled by China's rapid pace of change.

The Chinese government has embarked on the strategy and framework of "One Belt, One Road" since 2013, focusing on connectivity and cooperation among countries primarily in Eurasia; the strategy aims to rehabilitate the historical and long-term relationship and regain the affections with those countries that benefited from trading with China through the Silk Road from 114 BC to 1450. This strategy underlines China's push to take a bigger role in global affairs through *guanxi* capital. Thus, *guanxi* will continue to play a key role in the Chinese social-political-economic system, probably in a different way, and *guanxi* capitalism might prove to be the most effective, if not the best, system in China.

3. *GUANXI* PRACTICES IN INTRA-FIRM MULTICULTURAL GROUPS: A CASE OF CHINESE MNCS OPERATING IN EUROPE

INTRODUCTION

The word *guanxi* reflects the richness, flexibility, and complexity of the Chinese language; the plethora of implicit and explicit definitions of *guanxi* challenges researchers (Chen et al., 2013). Mao, Peng, and Wong (2012) defined *guanxi* as "the closeness of a relationship that is associated with a particular set of differentiated behavioural obligations based on social and ethical norms" (p. 1143). As elucidated in the previous chapter, *guanxi* is the "invisible hand" that steers and synchronizes the political, economic, and social systems in China through the hierarchical *guanxi* web. This web is woven by *guanxi* holders, who stand at the centre of *guanxi* circles produced by their own social influence, to serve their self-interest and the mutual benefit of all actors in the circle.

Mutuality is central to *guanxi.* The Confucian vision of ideal *guanxi* includes a monarch's benevolence and officials' loyalty, a father's kindness and a son's filial piety, an elder brother's friendliness and the younger ones' respect, a husband's rectitude and a wife's tenderness (君仁臣忠，父慈子孝，兄友弟顺，夫义妻柔) (Zhou & Long, 2005). There is a moral responsibility between the upper and the lower tiers of *guanxi* holders, and the relationship is mutual rather than separate. The core of reciprocation is mutual benefit, and it is the basis of *guanxi* (Yang, 1988).

The *guanxi* construct has been at the centre of a heated debate in the field during recent years. Some argue that *guanxi* is fundamentally different from social networks in the West and that it is a phenomenon unique to Chinese culture (Hung, 2004; Lin, 2001; Vanhonacker, 2004). Others equate *guanxi* with practices that are referred to as "networking" in the West (Wellman, Chen, & Dong, 2001). According to Child (2009),

guanxi can also be compared with Brazilian *jeitinho*, Hungarian *uram batyam*, Russian *blat*, American "good old boy" networks, Japanese *wa*, Korean *inhwa*, and the Arab world's *wasta*. Those scholars pointed out the similarities in these concepts from other cultures, such as the importance of familial and personal relationships, in-group and out-group distinctions, and the exchange of favours. Interestingly, while *guanxi* tends to have neutral or even positive connotations in China, *wasta* in the Arab world and *blat* in Russia have a negative connotation (Chen et al., 2013).

Some studies (Dunfee & Warren, 2001; McNally, 2011; Tong, 2014) have argued that *guanxi* practice has prevailed in Chinese business mainly due to the weak institutional system in China. Dunning and Kim (2007) argued that *guanxi* is often an alternative to formal institutions—a sort of compensation for inadequate formal incentive structures or enforcement mechanisms. Under weak formal institutions, personal connections and networking become underlying parts of economic and social exchanges. Though informal relationships and networking are also important in the West, their role is often overshadowed by formal institutions and enforcement mechanisms (Yeung & Tung, 1996). Liu (2016) indicated that maintaining *guanxi* is a way for Chinese to grow a sense of security, especially in an unpredictable workplace (Wang, 2012).

Because most research on *guanxi* has been conducted in China (e.g., Bian, 1997; Chen et al., 2011; Kwock et al., 2013; Opper, Nee, & Holm, 2016; Wong & Huang, 2015; Wong et al., 2000), we know little about whether and how *guanxi* is practiced by Chinese MNCs operating outside of China (Chen et al., 2013). My research focused on *guanxi* practice and examined *guanxi* practice among different social groups in a Chinese MNC operating in Europe.

My findings revealed that *guanxi* was practiced differently among three demographic groups: CEs, HCNs, and HCC. I observed that *guanxi* was practiced between actors in the CE group. However, there was no *guanxi* practice in either the HCN group or the HCC group, or among the three groups; both the HCN and the HCC groups

built their own social networks as done by other Western organisations. This study contributes theoretically to the fields of *guanxi*, social networks, and international business, and it sheds light on *guanxi* practice at the group level of intra-firm relationships in a multicultural context.

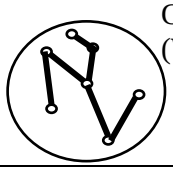
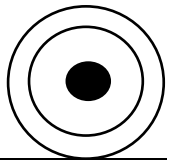
THEORETICAL BACKGROUND

Guanxi vs. social networks

Tsang (1998) claimed that because the Chinese represent a high-context culture, constructs of *guanxi* and their attributes need to be explored within their own cultural setting. The concept of business in China is not the same as in the West; instead, it is part of a holistic life of Chinese, which is intertwined with social, cultural, and political factors. To some extent, maintaining good *guanxi* is more important than fulfilling the contract due to the Confucian "rule of man" and holistic and long-term view of Chinese philosophy; therefore, the boundary between business, politics, and social life is rather blurred. Studying how *guanxi* is practiced in the West, therefore, requires clarification on the distinctive characteristics exhibited by Chinese *guanxi*, compared to those of Western social networks (see Table 3.1 for a summary, based on past studies).

Table 3.1 Characteristics Distinguishing Social Networks and *Guanxi*

	Social Network	*Guanxi*
Social Outlook	Individualistic (Sun & Lancaster, 2013)	Hierarchical, particularism (Chen et al., 2013; Luo et al., 2016)
Information Capture	Weak ties have an advantage (Bian, 1997; Burt, 2000; Granovetter, 1995; Zhou et al. 2007)	Reliance of strong ties (Chen et al., 2013)
Motive	Social exchange (Blau, 1964; Cropanzano & Mitchell, 2005)	*Renqing* (i.e., human touch and personal favor) (Chen et al., 2013; Faure & Fang, 2008)
Trust Base	Cognition-based (Chua et al., 2009	Affect-base (Chen et al., 2013; Chua et al., 2009)

Nature of Relation	Interdependent (Lawler & Thye, 1999; Cropanzano & Mitchell, 2005)	Dependent (Luo & Chen, 1997; Xin & Pearce, 1996)
Accessibility	Random (Moreira et al., 2006)	Exclusive inner circle members (Barbalet, 2017; Chen et al., 2013; Fan, 2001)
Durability	Short- to mid-term (Hofstede, 1990)	Long-term (Lovett et al., 1999, Styles & Ambler, 2003)
Protocol	Informal (Barney, 1985)	Both informal and formal (Barbalet, 2017; Chen, 2009)
Guiding Principle	"Rule of law"	"Rule of man" (Davies et al., 1995; Fan, 2001)
Dynamic Diagram	Social network (Nagler et al., 2011) 	Guanxi circle (Wang & Rowley, 2016) 

Social outlook. The concept and theory of social networks was developed with reference to individualistic societies, where the goals of individuals are valued more highly than the goals of the group (Sun & Lancaster, 2013), and actors in the network are normally in equal status. *Guanxi*, conversely, reflects a particularistic society (Chen et al., 2013), such as China, in which people treat different relations using different principles of social interaction; the position of actors in the *guanxi* circle is therefore critical due to their social status and influential power in the circle.

Information capture. In Western countries, weak-tie networks (Granovetter, 1995) and structural-hole networks (Burt, 2000) are more widely available. Weak ties are considered effective means for gaining novel information and accessing diverse pools of information sources (Zhou, Wu, & Luo, 2007), while in *guanxi* circles, people seek help from strong-tie (key *guanxi* holders) rather than weak-tie contacts (Chen et al., 2013). Information is captured from key *guanxi* holders who are trustworthy.

Motive. Actors participating in social networks seek social exchange (Blau, 1964) in terms of weighing costs against benefits. Although reciprocity is the key motive for both

social exchange and *guanxi*, in the former it can be relationships-as-transactions or relationships-as- interpersonal-attachments, or both (Cropanzano & Mitchell, 2005), while in *guanxi* it is entwined with *renqing* (i.e., affection and personal favour) (Chen et al., 2013, Faure & Fang, 2008).

Trust base. Actors in social networks gain trust by demonstrating competence first, which is cognition-based trust (Chua et al., 2009); the capability to offer tangible help is crucial. In contrast, actors in the *guanxi* circle build trust by resonating affections first, which is affect-based trust (Chen et al., 2013; Chua, Morris, & Ingram, 2009); the emotional need is superior to rational judgment.

Nature of Relation. Social networks are an informal way for people to interact based on personal will, in which actors are interdependent for mutual goals (Cropanzano & Mitchell, 2005; Lawler & Thye, 1999), while actors in a *guanxi* circle are dependent on *guanxi* holders for protection (Xin & Pearce, 1996) and making decisions (Luo & Chen, 1997) through accessing information and resources.

Accessibility. Social networks constitute a random network with a degree of distribution that unravels the size distribution of social groups (Moreira, Paula, Costa Filho, & Andrade, 2006); they are open to anyone who wants to participate. But a *guanxi* circle is exclusive to the persons within a close *guanxi* tie (Barbalet, 2017; Chen et al., 2013); it remains as an exclusive personal asset (Fan, 2002). Hence, it requires approval of a *guanxi* holder for a new member to join.

Durability. Actors participating in social networks in the West normally expect reciprocity in a short- to mid-term time frame given the "short-term oriented" view (Hofstede, 2001), while actors in a *guanxi* circle expect long-term benefit, as it takes time to build *guanxi* and favour might be exchanged in the long run (Lovett, Simmons, & Kali, 1999, Styles & Ambler, 2003).

Protocol. Compared with formal organisations, the procedure for organizing social networks is informal through individual initiative among actors (Barney, 1985). For

guanxi, while the organisation of activities appears informal, such as through meals outside working hours and the workplace, interaction among actors needs to follow the formal hierarchy in the *guanxi* circle (Barbalet, 2017; Chen et al., 2008). Normally the Tier 1 *guanxi* holder sets the theme and hosts the event for each specific gathering.

Guiding principle. Individual behaviour in social networks is guided by the Western "rule of law" value, for which legal codes are superior to personal relationships, while individual behaviour in a *guanxi* circle is guided by the Confucian "rule of man" (Davies, Leung, Luk, & Wong, 1995; Fan, 2001), which means that the authority of the Tier 1 *guanxi* holder is supreme.

Dynamic diagram. Social networks are structured by dyadic ties connected randomly by actors (Nagler et al., 2011), while the *guanxi* circle is selectively woven by *guanxi* holders (Wang & Rowley, 2017).

Chen et al. (2013) argued that *guanxi* is a distinct research domain that incorporates social network research, leader-member exchange, and relationship making at all levels; however, dyadic *guanxi* relationships may serve as building blocks of a social network and go beyond the network, and the dynamics of personal exchanges may emerge inside or outside the social network.

Burt and Burzynska's (2017) social network research with 13,780 American managers and 4,464 Chinese entrepreneurs provide further support to this idea. Their findings highlight similarities and differences in the way that basic network mechanisms operate in China versus the West. Based on these findings, the two researchers proposed that *guanxi* ties allow networks in China to operate in ways that are different from networks in the West, not because they are different in theory but because they are different in composition. This is not to say that no relational forms and practices exist in the West that closely resemble *guanxi*, but that the prevailing ones, as conceptualised in Western network theory, tend to be different.

According to their findings, when distinguishing *guanxi* from social networks, trust to some extent is high and relatively independent of social structure around the relationship**.** They observed that *guanxi* existed in those who have worked together for two or more years. They also identified that less than a tenth of manager relationships in America qualify as *guanxi*, and two-thirds of the Chinese entrepreneurs' key contacts qualify as *guanxi*, a significant difference even if the comparison between managers and entrepreneurs, on the other side, is not really a 'like for like'. They further found that there is no difference in terms of the amount of using connections between people with large, open networks and those limited to small, closed networks (i.e., *guanxi*). Thus, the purpose of *guanxi* practice is more specific and clearer than that of networking in terms of achieving a personal goal or favour. How many people you can connect with might be quite important for social networking, yet whom you do connect with is crucial for *guanxi* practice. In a nutshell, social networking is a "number game," and *guanxi* practice is a "member game."

Chen et al. (2013) conducted a comprehensive review of 213 studies of Chinese *guanxi* and social networking at the micro and macro levels, crossing multiple disciplines. They concluded that *guanxi* tends to be a mixture of family and non-family, personal and impersonal, and social and institutional characteristics. They encapsulated *guanxi* research in three streams: 1) research focusing on the individual and interpersonal level, studying the domains of *guanxi*, the measurement of *guanxi*, the antecedents and outcomes of *guanxi*, and the factors that influence the quality of *guanxi;* 2) research on *guanxi* at an organisational level, such as firm-to-firm and firm-to-government *guanxi,* with a main focus on its effects on firm performance and other financial outcomes; and 3) research examining the social and moral dilemmas of *guanxi*, focusing mainly on how *guanxi* practices for the benefit of focal units may affect the superordinate units in which the subunit is embedded, as well as the tensions between traditional relational ethics as opposed to modernist professional ethics.

Chen et al. (2013) also highlighted two understudied areas: how *guanxi* practice affects intra-firm group dynamics and how *guanxi* is practiced by Chinese MNCs operating outside of China. By studying how *guanxi* practices affect intra-firm dynamics in a Chinese MNC operating in Europe, my research addressed these two areas.

Guanxi practice in the Chinese context

Past research has widely studied *guanxi* practice in the Chinese operations of Chinese MNCs. Bian (1997) presented *guanxi* as bridges in job searches in China, which provided more opportunities for applicants recommended by *guanxi* holders associated with relevant firms. Ambler et al. (1999) found that long-term relational commitment and the need for prior *guanxi* in China were two successful factors for doing business. Barbalet (2017) stated that *guanxi* is a cultivated practice that is entered into on the basis of perceptions of opportunities for future advantage, which is particularly efficient in the situations of tight credit and high competition that prevail in small and medium enterprises. Chen et al. (2009) argued that *guanxi* represents the infusion of family-like relations into work relations, including both the strong affective attachment and deference to hierarchy inherent in Chinese family structures. Social exchange theory implies an exchange of freedom in return for quality of work, while *guanxi* implies an exchange of role adherence (e.g., commitment to job, organisation, and power of the supervisor) in return for being included as a family-like member in the firm.

Chen et al. (2009) also found that *guanxi* practice can increase employees' procedural justice perceptions. On the other hand, group-level *guanxi* practice, having managerial decisions systematically based on *guanxi*, can have a negative influence on employees' procedural justice perceptions. This indicates that those employees who are beneficiaries of *guanxi* practices may have an overall net-positive response to *guanxi* practices, while the opposite may be true for those who are not beneficiaries. It is also interesting to note that *guanxi* is partly utilitarian, and for those who are no longer

considered profitable to know, *guanxi* is easily broken. Xian, Atkinson, and Meng-Lewis (2017) also found that *guanxi* was positively related to a high-performance work system, which is positively related to trust and job satisfaction.

Shenkar (2009) suggested that, as they internationalize, successful Chinese MNCs need to maintain the Chinese characteristics in order to implement a well-developed *guanxi* that can substitute for formal coordination and communication mechanisms. Research investigating whether and how *guanxi* is practiced outside China, and with what effects, however, is still in its infancy.

Guanxi practice in multicultural context

Guanxi is derived from Confucian culture and has guided the social behaviour of the Chinese for more than two millennia (Chen et al., 2013; Dunfee & Warren, 2001; McNally, 2011; Zhang & Zhang, 2006). These same Confucian values are likely to influence the behavioural patterns of people working in Chinese MNCs.

Research has shown that *guanxi* still plays a key role in internationalized Taiwanese MNCs (Chen & Easterby-Smith, 2008), as Taiwanese managers believe that trust, face (*renqing*), and reciprocity in personal relationships with employees are very important in managing human resources in an international organisation. *Guanxi* practice in host countries, however, remains significantly under-investigated, and we know little about how social relationships in the branches of Chinese MNCs are guided and constrained by Chinese and Western cultural norms.

From a study of three Chinese MNCs in Denmark, Li-Ying, Stucchi, Visholm, and Jansen (2013) identified *guanxi* practice as one of the advantages of Chinese MNCs, because it helped firms to cultivate relationships with business partners to overcome their foreignness to the host country's institutions. Their findings show how Chinese managers relied on informal contacts and *guanxi* between Danish officials and the Chinese to fill a gap between a formal institutional framework, which was based on legally enforceable

contracts (in Denmark), and a national culture that is accustomed to informal institutions such as *guanxi* and trust (in China).

Child and Marinova (2014) argued that some Chinese MNCs in the West operate in a customary way of approaching officials, which is grounded on an experience of *guanxi* practice in the home country; however, this customary approach may prove to be counterproductive in the host country where there is an insistence on strict adherence to formal procedure. Lin, Zhao, and Lin (2016) studied 30 CEs working in five Western countries and concluded that *guanxi* was helpful for expatriates, helping a candidate secure a job even if he or she did not meet the requirements but had a good relationship with the boss. Leung (2014) noted that when CEs work with local employees, difficulties may arise not from specific cultural differences but from culture-based intra-group dynamics.

My study focused on how *guanxi* practice affects intra-firm group dynamics in the multicultural context that characterizes the overseas operations of Chinese MNCs.

RESEARCH METHOD

Deng (2012) suggested that given the present state of the literature regarding the internationalization of Chinese firms, initial theory building is paramount before more elaborate theories can be tested. Rich qualitative descriptions are important to stimulate the development of these theories (Hambrick, 2007, p. 1350). A qualitative approach is suitable to gather rich information on topics where little is known. Because of these reasons, I conducted an exploratory case study, aiming to expand our understanding of how *guanxi* practice affects the multicultural group dynamics of Chinese MNCs as they expand in Europe.

Research setting

I conducted my study in a large Chinese MNC, which I will refer to as BY to maintain confidentiality, with extensive operations in Europe. BY provides a comprehensive range of financial services to customers across the Chinese mainland. At the time of the study, outside of mainland China, BY operated in 51 countries and regions, including 18 countries in Europe. Its international operations, however, only accounted for less than 4% of both profits and assets, because its main purpose and focus were to help Chinese companies operate in overseas markets.

Many researchers (Chen et al., 2013; Dunfee & Warren, 2001; McNally, 2011; Tong, 2014; Zhang & Zhang, 2006) have shown that *guanxi* practice is strongly related to both cultural and institutional contexts. In order to ensure robustness of observation across contexts, therefore, I selected six subsidiaries in Europe, namely those located in France, Germany, Luxemburg, the Netherlands, Portugal, and the UK. These six subsidiaries represent diverse cultural clusters within Europe—Latin (France and Portugal), Anglo-Saxon (UK), and Germanic (Germany, Luxemburg, the Netherlands). They all also differ considerably from China in terms of the cultural values and institutional context that underpin *guanxi*. From a cultural perspective, the score of national cultural dimensions (Hofstede, 2017) between China and the six countries is significantly different in various respects (see Table 3.2), making them ideal host countries to explore the indigenous Chinese *guanxi* practice.

Table 3.2 Cultural Dimensions of China, France, Germany, Luxemburg, the Netherlands, Portugal, and the UK

Country	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	Long-Term Orientation	Indulgence
China	80	20	66	30	87	24
France	68	71	43	86	63	48
Germany	35	67	66	65	83	40
Luxemburg	40	60	50	70	64	56
Netherlands	38	80	14	53	67	68
Portugal	63	27	31	99	28	33
UK	35	89	66	35	51	69

Source: Hofstede (2001) and Hofstede (2017)

As illustrated in Table 3.2, five dimensions are directly related to the dynamic of multicultural groups and the perception of *guanxi* practice. In power distance, China is ranked highest, indicating that Chinese tend to accept and expect that power is distributed unequally. Given the power of the *guanxi* holder, Chinese expect to be treated differently according to hierarchy in the *guanxi* circle; however, HCNs of the rest of the six countries might find this difficult to deal with. In individualism, China is ranked lowest, indicating that Chinese tend to compromise individual needs for organisational goals as well as in the *guanxi* circle. Apart from Portuguese, this also might be very challenging for HCNs of the other five countries. In uncertainty avoidance, China is ranked lowest, indicating that Chinese have low tolerance of uncertainty; Chinese employees might prefer to stay in the *guanxi* circle to avoid risk and to gain a sense of security. Except for the UK, HCNs of the other five countries might have a different preference. The dimension of long-term orientation is derived from Confucian culture, and here China is ranked highest, which reflects the durability of *guanxi* practice. Among the other six countries, Germans might feel comfortable with this. Finally, in terms of indulgence, China is ranked lowest. This is not surprising, given the Confucian meritocratic system (Warner, 2004). Chinese are willing to work hard for personal achievement, and actors in the *guanxi* circle are willing

to indulge the *guanxi* holder rather than themselves. Among the six countries, Portuguese might have the best understanding of their diligent Chinese peers.

From an institutional perspective, the Worldwide Governance Indicators (WGI) project (Kaufmann, Kraav, & Mastruzzi, 2017) indicates substantial differences between China and the six other countries on all six dimensions of governance. Kaufmann et. al (2010) drew data on perceptions of governance from a wide variety of sources, and organised them into six clusters in response to the six broad dimensions of governance. For each of these clusters, they used a statistical methodology to standardise the data from very diverse sources into comparable units and constructed an aggregate indicator of governance as a weighted average of the underlying source variable, as well constructed margins of error that reflect the unavoidable imprecision in measuring governance.

As illustrated in Table 3.3, the World Bank Group has initiated and developed the WGI project, which reports the aggregate and individual governance indicators for more than 200 countries and territories starting from 1996. The World Bank Group defined governance as "consisting of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them" (World Bank, 2018).

Table 3.3 Institutional Indicators of China, France, Germany, the Netherlands, Portugal, and the UK

2016 Indicator	China	France	Germany	Luxemburg	Netherlands	Portugal	UK
Voice and accountability	-1.62	1.08	1.33	1.44	1.48	1.17	1.24
Political stability and absence of violence/ terrorism	-0.52	-0.06	0.76	1.41	0.89	1.02	0.83
Government effectiveness	0.36	1.41	1.74	1.69	1.84	1.22	1.61
Regulatory quality	-0.26	1.07	1.82	1.72	1.98	0.84	1.76
Rule of law	-0.22	1.41	1.61	1.71	1.89	1.13	1.63
Control of corruption	-0.25	1.37	1.83	2.08	1.95	0.96	1.88

Source: Worldwide Governance Indicators (Kaufmann et al., 2017).

It is recognizable that institutional indicators in China are far lower than those of the other six countries, and five of the six dimensions are related to the institutional context of Chinese firms. The voice and accountability dimension indicates that employees working in Chinese MNCs might not be expected to express their opinions openly and freely. Because of the low scores for government effectiveness and regulatory quality, and because most Chinese MNCs are SOEs and their management system is guided by the Chinese government, the quality of policy formulation and implementation in these firms might be far behind Western MNCs. The score for the rule of law reflects the fact that in Chinese society the "rule of man" prevails. The daily operation of Chinese MNCs, therefore, might be decided by the preferences of those wielding authority, rather than by company policy, and personal relationships might prevail on compliance with the rules. The score for control of corruption reflects the fact that corruption is defined differently in China: a gift over the value of £50 is considered corruption in the UK, yet it is barely a presentable souvenir by Chinese standards. Gift giving at the personal level for the purpose of organisational business is indeed a controversial side of *guanxi* practice.

Sampling

I employed theoretical sampling (Corley & Gioia, 2004) in purposefully choosing my informants and pursuing data relevant to the themes that emerged from the ongoing analysis, and the constant comparison of data across informants. Snowball sampling was used as an appropriate approach in this study, acknowledging the importance of *guanxi* in the Chinese context and the challenge to locate and reach potential international participants. The chosen informants were recommended by my *guanxi* tie in the company (i.e., a senior manager working for BY), based on her assessment of who would be most comfortable in sharing personal views and experiences relevant to my main research question concerning how *guanxi* practice affects intra-firm multicultural group dynamics. Overall, the composition of my informant sample eventually reflected the demographics of BY, illustrated in Table 3.4, to be representative of what emerged as three relevant in-groups among employees: CEs, non-Chinese HCNs, and HCC. The number of employees in the table is estimated due to fluid personnel changes.

Table 3.4 Demographics of BY

Branch	No. of Total employees	% of CEs	No. of Informants (CEs)	% of HCCs	No. of Informants (HCCs)	% of HCNs	No. of Informants (HCNs)
France	200	15%	2	70%	6	15%	2
Germany	230	17%	2	70%	6	13%	2
Luxemburg	120	29%	2	38%	2	33%	2
Netherlands	30	17%	1	33%	1	50%	1
Portugal	17	29%	1	41%	1	30%	1
UK	480	10%	2	79%	9	11%	3
Total	1077	15%	10	69%	25	16%	11

Data collection

I collected data through semi-structured, one-on-one interviews. Chen et al. (2013) noted that the interview method was not used much in *guanxi* studies, and that researchers could benefit from extensive semi-structured interviews with respondents who had knowledge and experience with *guanxi* practices. By using semi-structured interviews, my study

endeavoured to provide rich descriptions of individual experiences and, more importantly, to extend *guanxi* theory through new empirical insights. In order to do so, a list of themes—such as "Please describe your relationship with your colleagues including Chinese expatriates, local non-Chinese, and local Chinese." and "What is your experience and how do you feel working in the group in which there are people from multicultural backgrounds?"—was generated from the literature, and open-ended questions were developed to explore and expand on these themes (Denzin & Lincoln, 2005).

I conducted a total of 46 in-depth semi-structured interviews, as detailed in Table 3.5, during the period of March 2015 to November 2017. Given the sensitive nature of the data being sought, conducting research on *guanxi* in a typical Chinese organisation requires very good *guanxi* to access informants and gain their trust for collecting authentic data. It was considered best to elicit this information in the context of face-to-face, Skype, and telephone interviews to allow ample opportunity for the participants to elaborate on their response to items. The interviews lasted between 60 and 120 minutes. Most of them were tape-recorded, upon permission.

Informants varied in both the functional area and the hierarchical level that they represented. I interviewed 10 CEs who were members of a top management team in overseas subsidiaries, 25 HCC, and 11 HCN informants, ranging from the vice-president level down to the lower-middle of the hierarchy positions, such as CFO, human resource manager, local sales manager, and marketing researcher (see Table 3.5). A total of 11 interviews were conducted in English and 35 in Mandarin, depending upon the respondents' preferences. I am a native Mandarin speaker and fluent in English, so no interpreters or translations were used during the interview or the data analysis. I asked the three groups of informant's similar questions, and they were constantly asked to substantiate their viewpoints with examples and elaborations. I conducted my analysis on the transcripts in their original form to avoid the risk of losing meaning through translation. I then translated illustrative quotes from Chinese into English.

In terms of the measurement of *guanxi* practice, scholars define *guanxi* strength in terms of intimacy and trust (Bian, 1997; Bian & Ang, 1997), yet they operationalise it in terms of familiarity, which is how well the *guanxi* parties know each other (Chen et al.2013). Guthrie (1998) used the term *guanxi* practice to refer to the use of personal relations for achieving any objectives in work and life. *Guanxi* practices were also used as indicators of *guanxi* quality (Chen et al. 2013) conceived as the quality of social exchange activities outside of work between two parties (Law et al., 2000), as well as the extent to which a work relationship is transformed into a family-like, communal sharing relationship (Chen et al. 2013). Therefore, *guanxi* practice is here conceptualized as affective attachment, inclusion of personal life into workplace relationship and predominantly non-work-related social exchange acts, such as personal favour exchange, gift giving and dinner invitations. As the major difference between the Chinese *guanxi* measurements and the Western social exchange is that the former includes social exchanges outside work whereas the latter is limited to personal relationships at work. The inclusion of non-work-related social exchange has the advantage of capturing a mixture of the affect and instrumentality of Chinese *guanxi* (Chen et al. 2013).

Table 3.5 Informants

Branch	Informant ID	Gender	Position [a]	Year of tenure [b]	% of each group
France	CE1	F	A	30/10 [c]	7% of CE
	CE2	M	B	20/6	
	HCC1	M	A	28	4% of HCC
	HCC2	M	B	8	
	HCC3	F	B	3	
	HCC4	F	C	5	
	HCC5	F	C	8	
	HCC6	M	C	2	
	HCN1	M	A	6	7% of HCN
	HCN2	M	B	25	
Germany	CE3	F	A	30/10	5% of CE
	CE4	F	B	18/2	
	HCC7	M	B	10	4% of HCC
	HCC8	M	B	5	
	HCC9	M	C	6	
	HCC10	F	C	2	
	HCC11	F	C	10	
	HCC12	M	C	3	
	HCN3	F	B	30	7% of HCN
	HCN4	M	C	2	

Luxembourg	CE5	F	A	30/10	6% of CE
	CE6	F	B	15/2	
	HCC13	F	B	5	4% of HCC
	HCC14	M	C	6	
	HCN5	M	A	2	5% of HCN
	HCN6	F	C	4	
Netherlands	CE7	M	A	20/5	20% of CE
	HCC15	M	C	3	10% of HCC
	HCN7	M	C	2	7% of HNC
Portugal	CE8	F	A	28/2	20% of CE
	HCC16	M	C	2	14% of HCC
	HCN8	M	B	2	20% of HCN
UK	CE9	M	A	30/10	4% of CE
	CE10	F	B	30/3	
	HCC17	M	B	5	2% of HCC
	HCC18	M	B	8	
	HCC19	M	B	3	
	HCC20	F	B	2	
	HCC21	F	C	10	
	HCC22	M	C	3	
	HCC23	M	C	18	
	HCC24	F	C	2	
	HCC25	F	C	6	
	HCN9	M	A	10	6% of HCN
	HCN10	M	B	2	
	HCN11	F	C	10	
Total	**46**				

a A: Senior management, B: Middle management, C: Lower-level staff

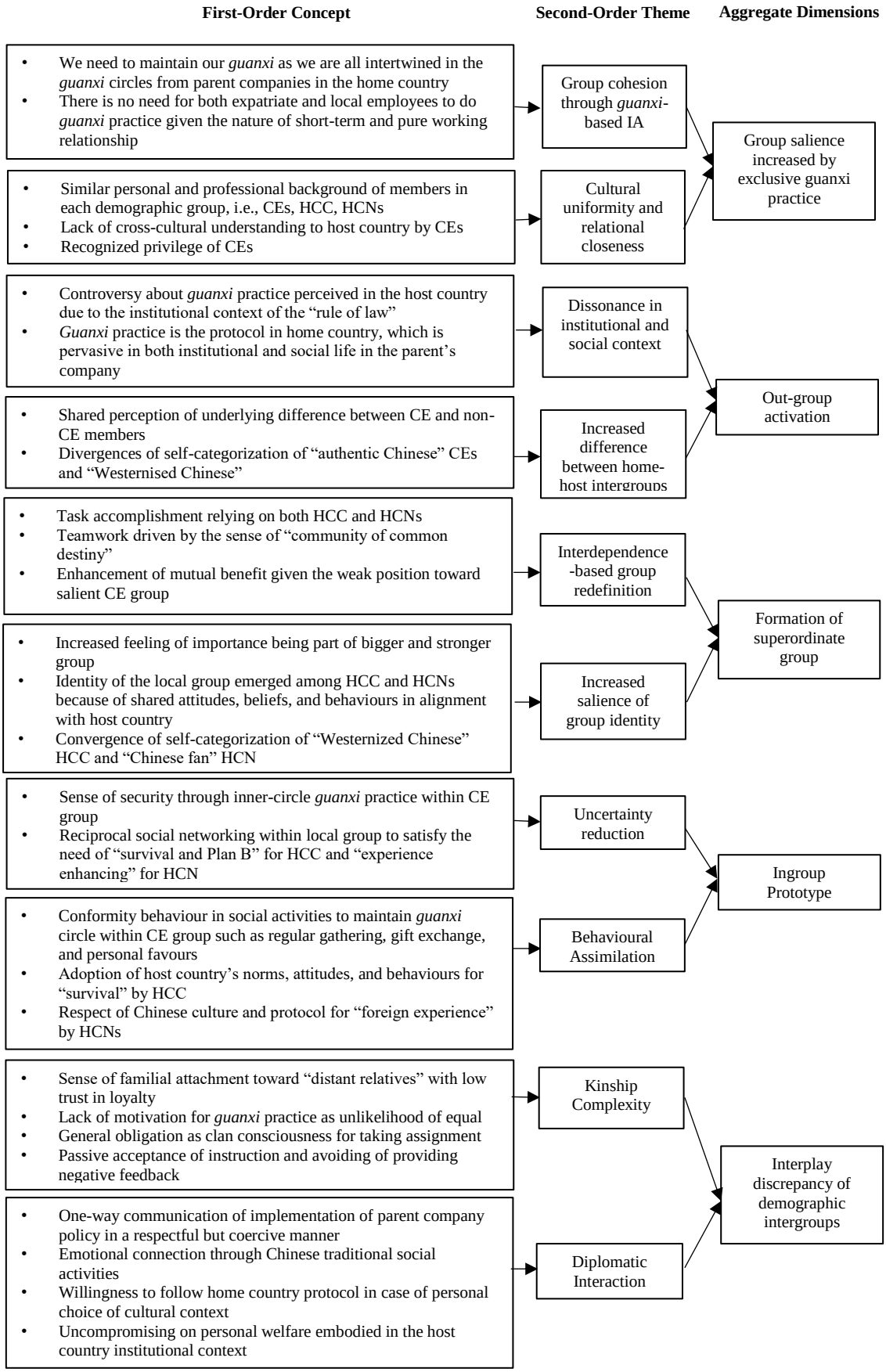
b As of the time of interview.

c Years working at the branch.

Data analysis

I analysed these data using techniques for grounded theory building. I reviewed the data and tagged relevant excerpts from interviews with codes. As more data was collected, and re-reviewed, codes were grouped into concepts, and then into categories. These categories became the basis for theory development. Through open coding, I identified initial concepts in the data and grouped them into categories. I used sentences as coding units and labelled each textual expression with simple and descriptive phrases. I established links among codes in the next round of axial coding, wherein I searched for relationships between and among these categories, which facilitated assembling them into higher-order themes. Finally, I gathered similar themes into several overarching dimensions that make up the basis of the emergent framework. The final data structure is illustrated in Figure 3.1, which summarizes the second-order themes on which I built the model of group dynamics affected by *guanxi* practice.

Figure 3.1 Data Structure



HOW *GUANXI* PRACTICE AFFECTS INTRA-FIRM MULTICULTURAL GROUP DYNAMICS

In this section, I integrate three sets of observations, visually summarized in three displays. Figure 3.1 shows the code structure resulting from my initial analysis, Figure 3.2.1 and 3.2.2 shows the emergent theoretical framework, and Table 3.6 shows additional supporting data.

Figure 3.2.1 A Model of *Guanxi* Practice Affecting Intra-Firm Multicultural Group Dynamics in Institutional Domain

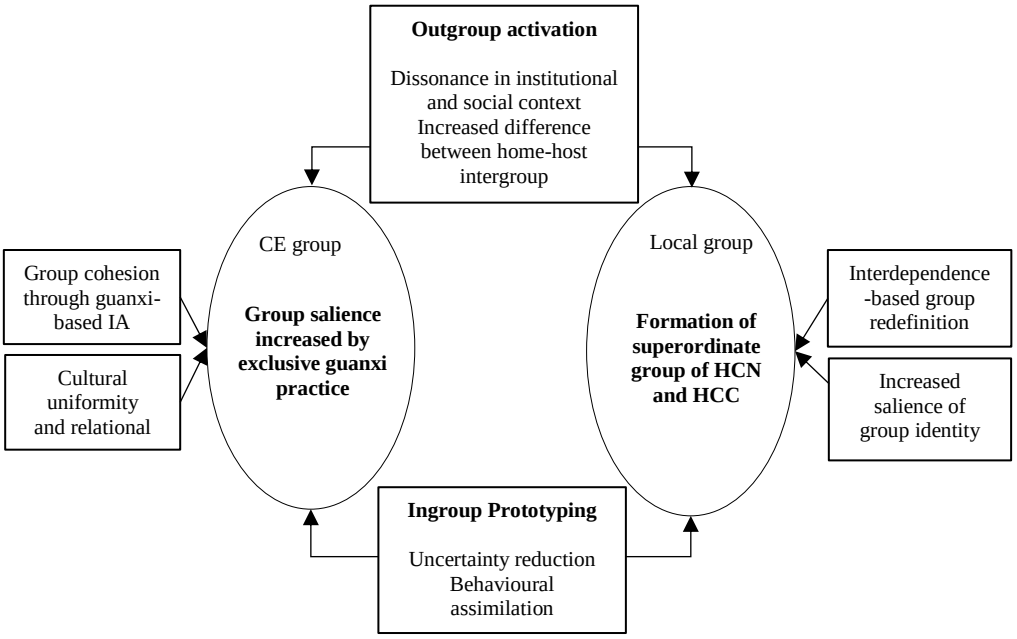


Figure 3.2.2 A Model of *Guanxi* Practice Affecting Intra-Firm Multicultural Group Dynamics in Social Domain

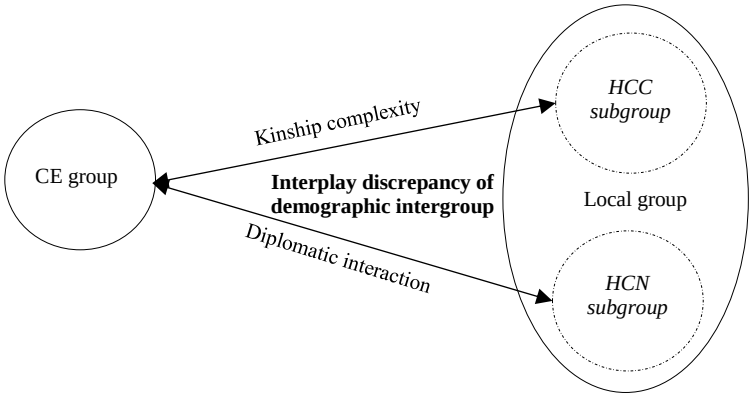


Table 3.6: Data Supporting Interpretation of *Guanxi* Practice Affecting Multicultural Group Dynamics

Theme	**Representative Quotations**
	In-group salience increased by exclusive *guanxi* practice
Group cohesion through *guanxi*-based (IAs)	We need to maintain our *guanxi* as we got IAs through *guanx*i holders in headquarters in the home country, we need to help each other to ensure my IA our next step of my career path. (CE1) I often work at home during the holiday, we communicate by WeChat about work and personal issues, we help each other not only for work as well as personal favours. (CE3) It took me many years and efforts to develop *guanxi* in China, of course, I have benefited from it a lot. However, there is no need for me to do it with local colleagues as we won't be able to help each other for long-term career or life. (CE5) The way I manage staff is different, I go out with Chinese expatriate staff for dinner and their family member but not with local nationals as they don't need. (CE7)
Cultural uniformity and relational closeness	Most of us have worked for BY since we graduated from universities in China. I have worked in several departments in different parts of China. Some of us know each other before we took IAs. (CE2) I feel that there is huge difference between Chinese and British culture, Chinese tends to be more emotional and like to build intimate relation. *renqing* plays key role in Chinese companies, we expect to be looked after by the employer and superiors. (CE9) Expatriates often socialize as they live in the same area, they communicate with the headquarter every day, and they chat in the office about work and personal matters. (HCC1)

	Outgroup activation
Dissonance in institutional and social domains	I have lived here for 20 years, although I am Chinese, I don't like to do *guanxi* practice because it is not professional. Expatriates are doing this all the time. (HCC17) Chinese would like to have personal relationship, but British people are only communicating in relate to working but not at personal level. (CE10) You can achieve your own goal through good *guanxi*. Good *guanxi* is very important here for expatriates, especially with parent company, *guanxi* is very personal. (HCN1)
Increased difference between intergroup	We mainly socialize among ourselves but not with local nationals and local Chinese, we are from similar background. Local Chinese are Chinese, but they are very different from us in terms of their values and behaviours. (CE4) Chinese expatriates speak Mandarin at work most of time, even in the formal meeting, I need my colleague to translate for me, however, no one would tell me what they are talking if I don't ask. (HCN3) Chinese expatriates have their own circle; they won't build close relationship with us. Although I am Chinese, I am not considered the same kind as expatriate as I don't have *guanxi* in China, probably, I am also very Westernised by their standard. (HCC7)
	Formation of superordinate group
Interdependence-based group redefinition	I don't care much about personal relationship with my colleagues, the most important thing is to do my job well, which is the key reason that I am considered valuable at BY, therefore, I really need to work closely with my local national colleagues as they know local protocol and regulations better. (HCC13) The local Chinese is quite different from expatriates; it is quite obvious to me. We have professional relationship and work as a team. Despite they are Chinese, I don't feel much difference between me and local Chinese. (HCN5) I go out with local nationals sometimes for a drink, it is kind of network which smooth the teamwork, I quite like it. We really rely on each other to finish the task. We can be quite direct at work. (HCC18)
Increased salience of group identity	I am definitely not able to join expatriate circle. I live here, therefore, I am considered local, and I feel quite comfortable about it and I have good working relationship with my other local colleagues. (HCC4) As expatriate, we play the key role to carry on the Chinese culture to this country, which I feel privileged, I respect local culture while I need to hold my value and culture. CEs are very important for successfully implement strategy and policy form parent company. (CE6) There is clear boundary between expatriates and locals, however, I think we need each other to do things. Expatriates have status privilege in this subsidiary, I am also quite lucky being local national in this country. (HCN9)

	Intragroup prototype
Uncertainty reduction	I don't feel much cultural shock here as we have stayed in same block and lived together like a big family. (CE9) As I don't have *guanxi* with expatriates and parent company, I work here for survival and I really need to have good working relationship with other local colleagues. I might need their help for plan B, who know. (HCC15) I really fascinated about Chinese philosophy and culture when I studied in university, this is probably the only opportunity for me to practice what I have learnt in my home country, I don't know how long I can work here, hence, I need to work closely with other local Chinese colleagues who would help me avoid cross-cultural misunderstanding. (HCN4)
Behavioural assimilation	You can ask Chinese working 18 hours but not local nationals, they have two policies, Chinese expatriates don't mind. I do overtime regularly as I need to share some responsibilities. (HCC16) I am aware that I can't order people to do things in this country, but I have to complete the task allocated by the parent company. I try to tell the local colleagues in a nice way, hopefully, they can understand where I come from. (CE10) I studied Chinese in my university years, I know in Chinese culture that you do what you are told by the parents or teachers. I try my best not take task as an order rather a Chinese way to implement. I do give my feedback but a bit indirect, try to be in Chinese way. (HCN2)
	Interplay discrepancy of demographic intergroups
Kinship complexity	Although they are Chinese, they have possessed local values and behaviours, I don't think they have loyalty to BY, they work here just for a job for living. On another hand, we do speak same language and share similar culture, I feel a bit easier to ask local Chinese to work overtime as they can understand better. (CE8) Certainly, I would benefit from *guanxi* if expatriates like to do it with me, however, I don't think they are interested in initiate *guanxi* practice with me as I won't be able to offer equal reciprocation as they expect. (HCC8) I understand that it is not easy for Chinese MNC operating in Europe where the business practice is so different from China. Therefore, as a Chinese, I want to contribute in my way as much as possible. Most of time, I just take tasks without asking many questions or raising concerns, I will try my best to solve it at my end. (HCC12)
Diplomatic interaction	I have 9 people in my team, including 4 Chinese expatriates who report to the General Manager directly on some so-call Chinese things. I don't feel very comfortable; I feel that I am not the real department head. Anyway, it is very Chinese, quite diplomatic. (HCN11) My foreign colleagues working here are very friendly and they are kind of friends to China. I understand that our way of communication at parent company might not very appropriate in this country, I have to do it, but in a very polite and respective way. We are not only expatriates but also diplomats for China. (CE6)

Combined, Figure 3.2.1 and Figure 3.2.2 highlight the core constructs in my emerging theory of how *guanxi* practice affects intra-firm multicultural group dynamics, as well as the different group dynamics in both the institutional domain (task-related teamwork), illustrated in Figure 3.2.1, and the social domain (personal relationship) illustrated in Figure 3.2.2, in the organisational context. The core constructs are displayed in Figure 3.2.1: 1) group salience increased by exclusive *guanxi* practice; 2) out-group activation; 3) formation of superordinate group, 4) in-group prototyping. An additional construct is displayed in Figure 3.2.2: 5) interplay discrepancy of demographic intergroups. This framework highlights that *guanxi* practice is only observed among CE members, which means that CE members conducted *guanxi* practice exclusively among themselves but not with HCNs and HCC. Consequently, in the institutional domain (Figure 3.2.1), exclusive *guanxi* practice activated one pair of in/out-groups (CE and non-CE), rather than three demographic intergroups (CE, HCC, HCN). This evoked the formation of a superordinate group: a local group consisting of two subgroups (HCC and HCN). In the social domain (Figure 3.2.2), three demographic intergroups are activated (CE, HCC, and HCN). Below I discuss the evidence and theoretical insights associated with each element of the model.

Group salience increased by exclusive *guanxi* practice

Hogg and Terry (2000) elucidated that when a group is salient, in-group members are liked more if they embody the in-group prototype, where all members are highly prototypical with a tight network of social attraction. According to informants, the CE group was “very powerful” in host country subsidiaries.

The exclusiveness of *guanxi* practice within the CE group increased the in-group salience, of which the trigger is related by two specific themes: group cohesion through *guanxi*-based international assignment and intragroup cultural uniformity and relational closeness.

Group cohesion through guanxi-based international assignments (IAs). Consistent with prior research (Yao, Thorn, & Doherty, 2014), *guanxi* was an enabling factor in the relocation and providing an international assignment opportunity for CEs. There were existing *guanxi* back to head office that often influenced the IAs. It was critical for CEs to maintain their *guanxi* with existing contacts in the home country. Individuals in each in-group of BY values harmony within a group; however, *guanxi* valued by the hierarchical superior CE group might be seen as a liability by other groups as they were excluded from this important activity. All CE members were interconnected in the *guanxi* circle developed in China, which they needed to maintain by continuing *guanxi* practice with *guanxi* holders in their home country, in order to fulfil the *renqing* (i.e., human touch and personal favour) and obligation. CEs were selected because of their trustworthiness, rather than their competence, by the decision makers and *guanxi* holders at the parent company; trust was mainly based on good *guanxi* between the candidates and decision makers. Therefore, CEs felt obliged to make extra efforts, such as working long hours during the weekend or on public holidays. As an informant explained:

> I got this job through the recommendation of my former boss, we have known each other for more than 10 years, although I moved to another department few years ago, we have kept very good *guanxi*. He is very helpful and influential in my career at BY. I am very grateful for this opportunity; therefore, I don't mind working overtime even during the weekend. [In this case, the former boss is the *guanxi* holder who helped the informant obtain an international assignment by wielding his *guanxi* circle] (CE1)

Having maintained *guanxi* practice with *guanxi* holders in China, CE members had no intention of initiating *guanxi* practice with HCNs and HCC, due to the main reason that their contract of international assignment was from three to five years on average; *guanxi* practice is time-consuming and takes years to bring to fruition. Nonetheless, they needed to keep *guanxi* practice with each other in the host country to balance the equilibrium of the entire *guanxi* circle, which was led by the same *guanxi* holders, and it was a "community of common interest" in which all CE members were interconnected:

> We got to know each other only since we have been posted in this country, though we all worked at BY but various departments in China. It is important for us to get to know each other well [so] we can share the information from the parent company. Furthermore, one of my colleagues' current boss in China is my former boss who [was] very helpful [to] us in terms of our career path. (CE2)

Cultural uniformity and relational closeness. The CE members shared a similar background, in that most of them graduated in China with a major in a foreign language and had worked in BY ever since, expecting a life-long career in the same organisation. The homogeneous organisational culture reinforced the similar and rigid values, attitude, and behaviours in CEs toward work and life, regardless of the changes of institutional and social environments. Furthermore, the alien culture of the host country and the concentrated living environment constructed the group solidarity reinforced by the boundaryless professional and personal life, in which the organisational culture they possessed in China was intensified rather than diluted. Thus, it generated vigorous cultural uniformity:

> We live in the same building block rented by the company and often dine together, through *guanxi* practice, we share not only working place and business information but also the private life. We live abroad; it is crucial for us to keep the culture we have developed in China. (CE5)

Although it is recognised from above two quotes that Western expatriates located in a host country have similar experience, the CEs have strong and deep need for *guanxi* practice in order to create a psychological 'home from home' to share or personal affections given that most CEs have lived abroad without being with close family members i.e. spouse and children. The CE group was perceived as lacking cross-cultural understanding to exclude host country employees from their *guanxi* practice, though it increased the sense of security to help CEs adapt to the host country and reduce the cultural shock. Furthermore, an IA in the developed country was a privilege and of personal benefit for Chinese managers, given the Chinese status-driven culture. The senior-level CE was perceived as the "imperial envoy," conveying messages from the parent company rather than managing daily operation of subsidiaries in the host country.

The *renqing*-driven relational closeness based on personal favour and affection—a key connotation of *guanxi*—was the rationale of *guanxi* practice that led to greater satisfaction through improved coordination (Barnes et al., 2011):

> As Chinese people, we value very much *renqing* because we feel good by expressing personal feeling and exchange favours to our peers which helps me emotionally living abroad, this is also an effective way to establish harmonious working relationship. (CE7)

Consequently, exclusive *guanxi* practice within the CE group increased in-group salience; in the meantime, it activated the non-CE group as the out-group. *Guanxi* practice within the CE group was intense; however, it was a dyadic relationship involving reciprocity for both personal and work between CE members only, exclusive to other intra-firm groups (the HCC and HCN groups).

Out-group activation

The GLOBE study (House, Hanges, Javidan, Dorfman, & Gupta, 2004) identified China for having the highest score of in-group collectivism in comparison to six other countries, which means that among each in-group, duties and obligations are important determinants of social behaviour. There is a strong distinction between in-groups and out-groups, even if both CEs and HCC are Chinese, because they have very different backgrounds and *guanxi* capital. Thus, they are out-group to each other. Nevertheless, a high in-group society emphasizes relatedness with groups. Zagenczyk et al. (2015) noted that identifying ourselves with a particular cultural group places a boundary around our group (i.e., the in-group) and defines non-members as members of out-groups. The in-group and out-group distinction has proven useful in describing attitudes and behaviours both within and across cultural group boundaries Gudykunst & Bond, 1997). Brown, Bradley, and Lang (2006) contended that people generally view in-group members more positively than out-group members. Especially, the membership of the CE group is based on longstanding

cultural and social relations. This in-group versus out-group categorization plays a significant role in Chinese intergroup interaction; therefore, *guanxi* defines the in-group and the out-group and states that the Chinese should be loyal and committed to those with *guanxi* only (Hui & Graen, 1997).

Dissonance in institutional and social domains. Due to the pervasiveness of *guanxi* practice in both institutional and social life in the parent company, CE members, regardless of their position in subsidiaries, played the powerful role of taking orders from the home country stakeholders, including superiors and *guanxi* holders, rather than simply communicating with them. Top-down management and authority obedience represented the dominant organisational culture in China, which the CE members developed and carried on in the host country. While many CE members were aware of the difference between the institutional and social protocols in the host country, their priority of strictly implementing strategy and policy of both management and business made by the home country was the key criterion to assess their performances. CEs perceived that the Chinese one-way communication with "telling" style is the effective method to interact with local colleagues:

> We are under tremendous time pressure to follow up the strategy and policy from the parent company, we receive the notice today and we are expected to make it happen tomorrow. We really don't have time to discuss with local colleagues and get their opinions. Furthermore, the parent company tend to make last-minute changes quite often, and we have to react quickly. (CE5)

Despite *guanxi* practice being the "daily routine" in China, CE members realized that the social practice used in China may not work in the host country; thus, they restricted *guanxi* practice to themselves because of the lack of motivation to initiate *guanxi* practice with the host country employees, who were perceived as out-group members without links to *guanxi* holders in the home country.

Increased difference between home-host intergroups. There was a shared perception that underlay the difference between CE and non-CE members in terms of values, attitudes, and behaviour. The one-way communication style is a typical cultural

trait in Chinese MNCs, although it was perceived by HCNs and HCC as against the Western values of information sharing, open discussion, and mutual respect. In addition, CEs initiated no *guanxi* practice toward HCNs and HCC, as they believed that HCNs, unlike Chinese, prefer a simple manager-subordinate relationship with the need for a clear direction of specific task rather than a relationship on a personal level. This provoked the divergent self-categorizations of "authentic Chinese" CEs and "Westernised Chinese":

> Although we share a similar national culture with local Chinese, they are local residents and quite Westernised, they prefer the Western management style which is detached professional and task-driven, moreover, they do not understand Chinese organisational culture. I only have few years' assignment and I really don't have time and motivation to building close relationship with local employees including Chinese and non-Chinese. (CE7)

Most of the CEs felt that it was easier to manage HCN and HCC subordinates in the host country than manage Chinese subordinates in the home country, as there they did not need to spend time on *guanxi* practice. CE members believed that HCC worked at BY for an interim arrangement without loyalty, as they preferred to work for local companies:

> I can see that the HCC have no loyalty to BY as they are constantly looking for opportunity of working in local firm in order to integrate into local society for the recognition and privileged status in developed country. I don't think it is necessary to do *guanxi* practice with them. (CE3)

However, CEs' assumption about HCNs might be a "toxic assumption" according to HCC informants:

> Chinese expatriates have their own *guanxi* circle and they have no intention to involve us although I am Chinese, I kind of understand that they don't think we can reciprocate in the way they are doing in China and they don't trust us very much. I feel like second class citizen, the way they treat us is as same as they treat local nationals, which is quite professional but detached, the local nationals are fine as it is their culture. However, I am Chinese, of course, I prefer more *renqing* at work. Anyway, I don't have much expectation. (HCC2)

Building trust in groups is the key success factor to achieve a high-performance group, in terms of cognition-based trust and affect-based trust (Chen et al., 2014). Groups may be able to attain the affect-based trust more quickly through *guanxi* practice.

CEs perceived HCNs as taking the opportunity to have a "Chinese experience" but not for a long-term commitment. Moreover, *guanxi* practice was alien to non-Chinese who grew up in the "rule of law" society:

> Local nationals are "foreigners" and they will never understand Chinese culture and *guanxi* practice; in particular, they are too rational to appreciate human touch and personal favour. We value *renqing* very much and would like to do extra work for helping colleagues and BY; however, they are self-benefit driven. (CE8)

Therefore, the exclusive *guanxi* practice built a clear boundary between the CE group and other intergroups, which activated the superordinate group: a local group consisting of two subgroups (i.e., HCC and HCNs).

Formation of superordinate group

Hogg and Terry (2000) noted that the nature of relations between subgroups is a function of the nature of the subgroups' relationship to the superordinate group. They argued that subgroups often resist attempts by a superordinate group to dissolve subgroup boundaries and merge them into one large group, which tends to be very large, amorphous, and impersonal. People strive for a balance between conflicting motives for inclusion or sameness (i.e., satisfied by group membership) and for distinctiveness or uniqueness. However, according to their experiments, Hornsey and Hogg (1999) found that inter-subgroup relations were more harmonious when the subgroups were salient within the context of a salient superordinate group than when the superordinate group or the subgroups alone were salient. The local group emerged from the spontaneous merger of HCN and HCC subgroups, which was triggered by the immense salience of the CE group.

Interdependence-based group redefinition. Given its increased salience, the CE group created strong interdependence between HCC and HCN groups as to which they need to accomplish tasks to demonstrate their competence, which is the key criterion for measuring their performance. Therefore, both HCC and HCNs needed to redefine their

group from culture-based to task-driven working groups in the sense of a "community of common destiny." Consequently, the formation of an interdependence-based local group enhanced the mutual benefit of both HCC and HCN groups, given their weak position towards the CE group.

The HCN group was very diversified and multicultural, consisting of various nationalities and races, including white-European, Latin, and Asian. The common motive for the non-Chinese local nationals working for BY whom I interviewed was the personal interest in either Chinese or Asian culture. A few informants had worked for Japanese companies before they joined BY. In general, HCNs considered BY as a Chinese company rather than a global company, because of its highly centralized structure and strong national culture. There were a few HCNs working at a managerial level because of their expertise for the local market, and most of them worked for BY either for the job itself or for survival. HCNs maintained business relationships with external parties such as local authorities and clients. They believed that CEs had a closer relationship with Chinese employees because they spoke and communicated in Mandarin at work and had lunch together. The HCNs believed that there was no need for *guanxi*, as they were local, without *guanxi* holders in the parent company. They observed *guanxi* practice among CEs and believed it to be useful in a Chinese company; however, they felt uncomfortable about CEs communicating in Mandarin all the time:

> Chinese is the main working language in this branch. I really have to rely on my local Chinese colleagues to translate for me, such as documents or e-mails from China, as well as in some meetings. I feel quite annoyed about this, although I understand it is the way to get things done easily, but only to Chinese. (HCN6)

CEs used WeChat, a Chinese software application, to share work-related topics at any time during the day, as the Chinese believed this to be the most efficient way to sort things out, enhance personal relationships, and build a network. HCNs felt quite uncomfortable in being contacted for work-related issues after work:

> I don't use WeChat, although my Chinese boss has tried to persuade me. I don't like to be reached at any time, particularly at home, as I want to keep clear boundary between work and life. Furthermore, WeChat becomes the official

> channel for CEs to share some information and circulate some official documents but mainly in Chinese. They also share personal stuff, I guess it is the way to build close relationship. However, I still prefer to use company e-mail for professional matters. (HCN7)

The HCC group was recruited locally in host countries. Some of them were born in the host country, and some have stayed since they finished their study there. Some HCC expressed their experience of "reverse cultural shock," as they felt more comfortable working with HCNs than with CEs. This was mainly due to the exclusiveness of *guanxi* practice within the CE group. Despite speaking Mandarin, HCC did not have any *guanxi* in relation to the parent company in China. They observed the intense *guanxi* practice among CEs, yet they were not invited to participate. Informants believed that they had earned the respect and trust from CEs through their hard work; this trust, however, was based on cognition, not affect:

> I have worked here for six years, mainly for "survival," as it is not easy for a Chinese [person] to get a job in [a] non-Chinese company outside China. I appreciate that *guanxi* practice is crucial in China for building a successful career; however, I don't have a chance to do so in BY because I don't have any *guanxi* in BY China. Thus, I am not in the *guanxi* circle of CEs. My value for BY is my technical competence of local market to accomplish the task allocated by the parent company, which CEs have to rely on local nationals; therefore, I need to work closely with my local non-Chinese colleagues as they understand the local protocol and regulations. Furthermore, because I speak Mandarin, it is easier for CEs to communicate. I also don't mind working overtime sometimes given my Chinese values that we take work as priority than our personal life. (HCC9)

Increased salience of group identity. Thomas (2012) argued that for Chinese, the establishment of a common group identity among non-Chinese members might be more difficult than the *guanxi* practice among Chinese members. However, under the circumstances, group members' willingness to participate depended on the salience of the task group identity versus that of their cultural group. In the six subsidiaries, despite the HCC group having four times the number of members (744) than CEs (163) or HCNs (170), the group salience was much less due to their low influence, without *guanxi*, in the organisation. Even though the HCN group was in a better position to access local resources, as the "first class citizen" in the host country, they were more like local staff

working for the Chinese Embassy who were expected to follow decisions rather than jointly make decisions. Hence, both HCC and HCN groups felt part of a bigger and stronger local group.

The identity of the local group was formed by sharing a similar attitude, belief, and behaviour in conformity with the institutional context of the host country:

> Although I am Chinese from mainland China where *renqing* and *guanxi* is valued most in any context, I have learned here that I need to be more Western-like to add value to BY, CEs trust me because of my competence of working with local stakeholders. I will never able to access the inner-circle of top management without *guanxi* in China. Therefore, I have behaved like a "Westerner" and worked with my local colleagues more closely. (HCC3)

In-group prototype

The perceptual accentuation of intragroup similarities and intergroup differences maximized separateness and clarity (Hogg & Terry, 2000). According to the context of BY subsidiaries in the host country, as both the CE group and the local group became salient, the members of both groups came to see themselves less as individuals and more as interchangeable exemplars of the group prototype, which is not an objective reality but rather a subjective sense of the defining attributes of a social category (Hornsey, 2008). Self-categorization was a key psychological process in group behaviour, whereby, through a process of "depersonalization," individuality was temporarily submerged within conformity to a group prototype containing idealized characteristics of the group (Liu, Li, & Yue, 2012).

Uncertainty reduction. In order to reduce subjective uncertainty about one's perceptions, attitudes, feelings, behaviours, self-concept, and place within the social world (Hornsey, 2008), all members within both the CE and local groups depersonalized themselves to generate social identity. Thus, they categorized themselves into an in-group and an out-group to accentuate the perceived similarity of the in-group prototype (Hogg & Terry, 2000). In doing so, CE members conducted intense *guanxi* practice within their group to preserve their strong social identity of "authentic Chinese":

> [Although] BY is the first globalized Chinese MNC, fundamentally, we are a Chinese company and we ought to possess strong Chinese characteristics in our daily operations wherever we go. Maintaining good and close *guanxi* with colleagues in China, as well as expatriates, is essential for us to keep our Chinese identity, which I am proud of and makes me feel secure. (CE8)

Consequently, HCC and HCN members established reciprocal social networking within the local group for an individual need of "survival and Plan B" for the HCC and "experience enhancing" for the HCNs:

> I feel more comfortable to work with HCC than CEs as they are quite straight forward and simple, and we can communicate easily and understand each other clearly. We rely on each other to complete the task. Occasionally, we go out for a drink just for fun. The local Chinese are quite different from Chinese expatriates: they are more friendly and easy going. We have good teamwork. I quite enjoy working at BY, which provides me a good opportunity to practice what I learned about Chinese culture and philosophy. (HCN8)

Behavioural assimilation. To the extent that access to the dominant group does not present too much difficulty, individual assimilation may occur (Tajfel, 1982). I observed behavioural assimilation in both the CE and local groups. Liu and Lee (2008) argued that having worked for the company in its home location, the expatriate was likely to adapt to the corporate culture through assimilation and socialization. Despite CE members having no intention of initiating *guanxi* practice with out-group members (i.e., the local group), some of them expected local colleagues to get things done through *guanxi* practice with the host country business partners:

> My superior is a Chinese expatriate, and she asked me to get the best deal from local suppliers under the circumstance that we may not sign the contract in time, as it took a long time to process and get official approval from the parent company in China. I said it is unlikely. Then, she expected me to use my *guanxi* to sort it out. But we don't do *guanxi* practice in this country. (HCN5)

It took a while for some CE members to realize that they needed to adapt to the local institutional and social environment in terms of their management and communication styles. According to informants, they intended to adopt a Western management style to work with local members, and *guanxi* practice was not appreciated in the West:

> I tried to establish *guanx*i with local nationals, but I failed miserably. I realized that Westerners lack human touch, and they won't help you when you need them as a friend. Their personal welfare and legal regulations are much more important than personal relationship and friendship, which I found very hard to accept.

> Hence, I just keep professional working relationship with local colleagues and partners and I won't build a personal or intimate relationship with them. (CE9)

Within the local group, members of the HCC subgroup went through "dual" assimilation. As local-based Chinese, they strived to adopt local values and behaviours to integrate into the culture and society of the host country. On the other hand, they also made efforts to be accepted and valued by CE members. Being "Westernised Chinese," they were perceived as lacking "authenticity" to both Chinese and Western cultures; nevertheless, they were the "bridge" across cultures:

> I have lived in this country for almost 20 years, I am quite used to the local culture and protocols, although it took me a few years to adapt. I tried to get a job in local companies, but it was extremely difficult as a Chinese. I am glad that I had a chance to work for BY. I was aware that I was recruited because I am Chinese, and I am expected to behave like Chinese towards Chinese boss. However, I felt a bit of reversed "cultural shock" at the beginning, in terms of the Chinese expatriates' working styles. I was a bit annoyed with their exclusive *guanxi* practice among themselves; however, after a while, I did not mind as I don't like *guanxi* practice anyway, and I feel better when I work with my local colleagues, regardless if they are Chinese or non-Chinese. (HCC25)

In addition, despite the fact that noticeable individual assimilation of HCN members was not expected, most informants proclaimed their adaptation working for BY:

> I like and studied Chinese culture and philosophy, I expected to practice what I learned about China by working for BY. I tried to communicate with my Chinese colleagues in a Chinese way, which is very hierarchical culture. I call my boss President Wang as the same way of all other Chinese address him. I can observe clearly the *guanxi* practice among Chinese expatriates. Obviously, they have a special relationship. My deputy is Chinese expatriate, he always goes to President Wang directly without involving me. I am a bit annoyed, but I understand this is Chinese culture, *guanx*i is essential in Chinese MNCs. (HCN2)

HCNs did not understand why HCC never disagreed with their boss, even if their boss was wrong. The value of the power distance index of the other four countries is lower than that of China. Also, they did not perceive the inequality between themselves and their boss. One informant shared his experience that one HCN subordinate challenged him over an unrealistic request of working overtime to translate a document from Chinese to English and then to German. This HCN showed him the evidence to prove that the internal employees were not able to do a proper job by sacrificing their personal time. The evidence convinced the informant and, as a result, the informant outsourced the job

to an external party. The courage that the HCN possessed to confront his superior was from his belief in his judgment and his confidence in the mutual trust and benefit between him and the informant. In fact, it took the HCN one and a half years to gain the trust from the informant by building a good personal relationship and prove his competence at work. Hence, proper building of *guanxi* may help people from different cultures understand each other and reduce the perception of inequity between hierarchies.

Interplay discrepancy of demographic intergroups

The influence of *guanxi* practice on group dynamics was analysed in the previous discussion from an institutional perspective of the organisational context in BY host country subsidiaries, in which one pair of in/out groups (i.e., the CE and local groups) was studied. As illustrated in Figure 3.2, the group dynamic from the social perspective, indicated in dotted lines, reveals two pairs of in/out groups (i.e., CE/HCC and CE/HCN) between which there is discrepancy in terms of intergroup interplay.

Kinship complexity. In this context, it was fictive kinship to distinguish the interplay between CE and HCC and between CE and HCN, given that *guanxi* was derived from kinship and the kinship *guanxi* base is more important (Tong, 2014) for Chinese. The interplay between CE and HCC was observed as the familial attachment toward "distant relatives." The complex feeling was mutual between CE and HCC members, although they were all originally from mainland China and shared the same value: that *renqing* is important for any relationship in both an institutional and social context.

In China, *guanxi* is the golden thread that ties the entire society together; therefore, everyone working for the same organisation weaves the *guanxi* web, in which all *guanxi* holders are interconnected in one way or another. However, it seems that the Chinese *guanxi* web could not easily stretch beyond national borders, which may create a challenge in the process of the globalisation of Chinese MNCs. Specifically, one of the trade-offs for Chinese living abroad was to loosen the connection with the *guanxi* web in

China. HCC members working for BY were recruited in the host country, and they did not have *guanxi* holders in the parent company; however, they were in a tricky position, because they were not trusted as the close family member, yet they were expected to behave like a family member, even though they were "long distance relatives." Therefore, CE members had a sense of familial responsibility toward HCC, and they also wished or expected HCC to fulfil the duty of "family members" like in a parent's company, such as taking orders from the top, doing what they were told, and coming to work at any time they were needed:

> I understand that the way I interact with local Chinese should be different from that in the home country, though they are also Chinese. We have a different background, as I am assigned by the parent's' company having both privilege and obligation, but we also care and look after local Chinese in many ways. Compared to Western companies, we value *renqing* or human touch. Hence, local Chinese are Chinese after all and they should appreciate what BY offered for them and make a contribution to the family when needed. (CE5)

For HCC members, they had a sense of "obligation" toward BY not only because BY provided the job but also because of the emotional attachment of the "family members from home." However, they were in between two cultures; specifically, they were making a choice between working overtime for the organisation (i.e., big family) and personal arrangements with family or friends (i.e., small family):

> I know that almost everybody in China work overtime and leaves family behind; organisational life is more important than personal life. I live in this country and possess the local attitude of work-life balance; however, I was asked periodically to work during weekends or on public holidays. As a Chinese, I tried to comply and compromise my personal life as much as I can, but sometimes I said "No" because I want to keep my own life as normal as local nationals. Chinese expatriates don't mind sacrificing their personal life as they have status and privilege as a compensation, but I don't. (HCC24)

Diplomatic interaction. Notwithstanding that the working relationship between CEs and HCNs was normal and professional, the disparate ideological background of CEs was developed in China, whereby a holistic but solitary system intertwines with politics, the social culture, and the economy. Consequently, they were mindful of Western culture and values, either psychologically or even unconsciously. Unlike Western expatriates, CEs needed to be the "ambassadors" in addition to businesspeople; thus, "politically correct"

was rather cardinal determining their career path, and they needed to become a politically astute "diplomat" prior to being a savvy businessperson. Working in the "embassy" was challenging for both CEs and HCNs, despite HCNs perceiving the challenge as a cultural difference rather than an ideological disparity. CEs' attitude toward HCNs can be described as "polite but cohesive," especially given the pressure from the home country. CEs used one-way communication to get things done in the host country, which the HCNs found difficult to take:

> Working in the host country, I need to be aware that I am representing not only BY but also China. I respect local culture and values, but I need to hold onto my own culture and beliefs developed in China. I have good working relations with my foreign colleagues (i.e., HCNs); however, sometimes, I have to tell them to implement the policy form the parent company as we have no other choice but to follow. I am aware that I was quite direct, but I am always direct in a polite way. (CE9)

> I understand that obeying authority is one of the key features of Chinese culture, but I still think that Chinese expatriates need to understand that they can't get things done in the same way they do in China. I try not to say "No" when I was asked to follow up something, as I appreciate "face" is important for Chinese, but I have said "No" if I believe it couldn't be done or I was not able to accept. They were not happy, and they usually try to persuade me. If I insisted, they would find someone else to accept. However, they are quite polite and respectful. I want to know them better and involve into their *guanxi* circle, but I realized after a while that I will never able to be involved as a "foreigner." (HCN3)

China is a family-centric country deeply rooted in Confucian ethics, which favour relationships with others (Luo, 1997), where national interests are above everything else and family interests are higher than personal interests; therefore, business interests are higher than those of employees. Chinese enterprises expect employees to regard enterprises as their family, which means that employees are expected to sacrifice personal interests when needed. Chinese employees do not view working overtime as a personal sacrifice and are even proud of it. In many Western countries, however, an individual's family comes first, and overtime not only reflects low efficiency but also signifies employees' sacrifice of personal interests and disrespect for their families. If Chinese MNCs put forward the same requirement on employees of host countries, the conflict may be self-evident.

Peer Collaboration. Notwithstanding that the working relationship between CEs and HCNs was normal and professional, the disparate ideological background of CEs was developed in China, whereby a holistic but solitary system intertwines with politics, the social culture, and the economy. Consequently, they were mindful of Western culture and values, either psychologically or even unconsciously. Unlike Western expatriates, CEs needed to be the "ambassadors" in addition to businesspeople; thus, "politically correct" was rather cardinal determining their career path, and they needed to become a politically astute "diplomat" prior to being a savvy businessperson. Working in the "embassy" was challenging for both CEs and HCNs, despite HCNs perceiving the challenge as a cultural difference rather than an ideological disparity. CEs' attitude toward HCNs can be described as "polite but cohesive," especially given the pressure from the home country. CEs used one-way communication to get things done in the host country, which the HCNs found difficult to take:

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DISCUSSION AND CONCLUSION

Hogg and Terry (2000) studied social identity and group dynamics in organisational contexts and stated that social attraction is produced by prototype-based

depersonalization of in-group members, and personal attraction is generated by feelings that are the idiosyncrasies and complementarities of close and enduring interpersonal relationships. They also argued that social attraction may foster organisational cohesion, but interpersonal attraction may fragment the organisation. However, this study shows that *guanxi* practice, a "daily routine" across institutional and social boundaries in the home country, is intensively performed among CE members who are both highly prototypical and relational to maintain in-group salience. Therefore, *guanxi* practice is a pattern of social dynamics containing both social and personal attraction, which can foster either cohesion or deviance of the group, depending on the institutional and social context.

My study reveals that *guanxi* practice fosters the cohesion of the CE group and merges the HCC and HCN groups, but it enlarges the social distance between two Chinese groups: the CE group and the HCC group. Consequently, exclusive *guanxi* practice within the CE group fosters organisational cohesion in the host country. Therefore, making the subgroup and superordinate group identity simultaneously salient is a sound strategy for managing inter-subgroup relations within a larger group. In particular, conflict arising from sociodemographic diversity within a multicultural organisation can be moderated by crosscutting demography with role assignments or by encouraging a strategy of cultural pluralism (Hogg & Terry, 2000). Their proposition, although literally true, is nevertheless a consequence of "survival instinct" rather than strategy implementation, as revealed in this study.

Findings from 46 interviews provide new insights on how *guanxi* is practiced in the international operations of Chinese MNCs. Over the past five decades, in the field of management, cultural transferability has been mainly studied as occurring from the West to the East. The time is ripe, however, to begin considering cultural transferability in both directions. This research indicates that Chinese managers have not conducted *guanxi*

practice effectively in the host country in foreign locations. They are not aware that the *guanxi* practice skill cannot be transferred directly to cross-cultural contexts.

Paradox of *guanxi* practice

This study extends Liu et al.'s (2012) research, combining social identity theory with an indigenous Chinese psychology based on a sociology of social roles. It is also consistent with their finding that *guanxi* clearly deals with instrumental relationships**.** Nevertheless, the paradox I observed is that *guanxi* practice helped CEs a great deal for the IA adjustment. However, its strict exclusiveness within the CE group disengaged another ethnic group (HCC) while facilitating the formation of a superordinate group (the local group), which was merged by two intergroups (HCC and HCN groups). Consequently, *guanxi* practice triggered intra-firm multicultural group dynamics in both institutional and social forms, whereby the institutional form occurred in interplay in the CE/local group. This means that in the instrumental context of completing "rational" tasks, the HCC group perceives its identity as the same as that of HCNs—competence-based employees—and the CE group expects the same from both the HCC and HCN groups; while a social form occurred in interplay between the CE/HCC and CE/HCN groups, in the expressive context of communicating emotions, the HCC group has a strong Chinese identity of "second class citizen," and the CE group expects the HCC group to better understand the "Chinese way." On the other hand, being Chinese, the unspoken psychological contract held by HCC was that they wanted to be trusted at both the cognition base and the affect base; however, CEs focused only on the former one due to either deliberately reducing emotional dependence or being unaware of HCC's needs.

Boundarylessness of professional and private domain

Apart from e-mail, WeChat[1] is the most popular Chinese social media platform via smartphone, and it is the best and official communication channel at BY. The CEs and HCC feel fairly comfortable in being reached by WeChat and share work-related topics at any time of the day, as long as the smartphone is in use. Chinese believe this is the most efficient way to sort things out and build *guanxi* to form in-group trust. HCNs feel quite uncomfortable in being reached for work-related issues after work. In particular, work-life balance and family responsibility are the key values in the West. Under these circumstances, Chinese MNCs need to identify the key cultural factors to escalate their globalisation in the developed markets.

Practical implications

The implications of these findings are apparent at different levels. First, there is a need to recognize the influence of *guanxi* practice in multicultural groups. Operating in the host country does not necessarily indicate that local nationals are insensible to the social culture of the home country, such as *guanxi* practice. On the contrary, it can affect both institutional and social domains in intra-firm multicultural groups. Considering the *guanxi* practice as an opportunity for improving group cohesion in the multicultural context, it is also a sound strategy for managing global teams of MNCs.

Second, the key insights involve the recognition for CEs, who might be more effective in achieving institutional goals through *guanxi* practice or an adapted version of *guanxi* practice to increase the engagement level of HCC and HCNs. Their achievement of an IA for the organisation is crucial, and there is a need for the organisation to

[1] WeChat (Chinese: 微信; pinyin:*Wēixìn*; literally: "micro-message") is a Chinese multi-purpose messaging, social media and mobile payment app developed by Tencent. It is one of the world's largest standalone mobile apps by monthly active users (The Economist 2016) with over 1 billion monthly active users (Jao 2018). It is also known as China's "app for everything" and a "super app" because of its wide range of functions and platforms.(Guest editor, 2018).

institutionalize their knowledge (Inkson & King, 2012) and reap the benefits of their experiences while they are in the host country (Yao et al., 2014).

Finally, my research suggests that, in a business environment outside China, the more skilled an individual is at *guanxi* practice, the more likely that this expatriate will find it difficult to socialize with local nationals. Thus, when cultivating working relationships in the West, an expatriate may want to adjust his or her way of *guanxi* practice with local nationals, and it may not be sufficient to either cease or imitate *guanxi* practice in local groups.

Limitations

The study has several limitations due to its exploratory nature. While the sample is within one organisation, it is selected to be representative and provide rich data and insight to develop a deeper understanding of the intra-firm *guanxi* practice of Chinese MNCs operating in the West. Future studies could investigate more organisations with different backgrounds, such as Chinese private companies operating in the West. Moreover, it would be worth exploring research on international HR management of Chinese MNCs that blend *guanxi* and social network ties into a specific organisational culture.

4. DEVELOPING *GUANXI* IN THE WEST: CHINESE EXPATRIATES' ADJUSTMENT IN EUROPE

INTRODUCTION

Since Chinese organisations started to go global after the entry of China into the World Trade Organisation in 2001, a great number of Chinese multinational corporations (MNCs) have made significant investments worldwide. According to data gathered by Baker McKenzie (2018), in 2017 Europe attracted more Chinese investment in the West than did the US, and Chinese MNCs closed deals worth $81 billion in Europe in that year. Consequently, this new phenomenon has stimulated Chinese nationals to become expatriate managers in Europe and to do business with Westerners (Li & Nuno Guimarães Costa, 2016; Lin et al., 2018). This new tendency does not appear to have attracted enough academic attention (Li & Nuno Guimarães Costa, 2016). Nevertheless, the comprehensive review by Takeuchi (2010) shows that although there is an enormous amount of research concerning expatriate adjustment, most studies focus on understanding the adjustment of Western managers sent to non-Western countries, including China (Braun & Warner, 2002; Selmer, 2010). Few studies have explored the inverse process. How CEs adjust in the host country, in particular, remains under-investigated.

Black, Mendenhall, & Oddou (1991) argued that relational skills are positively related to the degree of host country adjustment, and the greater the expatriates' relational skills, the easier it is for them to interact with host nationals (Mendenhall & Oddou, 1985). As *guanxi* building is a key relational skill in the Chinese context, how this skill affects CEs' adjustment needs to be further studied. Therefore, this study is one of the first to explore the indigenous Chinese *guanxi* in the Western context by understanding *guanxi* building and its impact on the adjustment of CEs.

Wood and Mansour (2010) argued that expatriate adjustment is a multidimensional concept and follows a U-curve, and that *guanxi* provides an important framework for understanding CEs' interactions. Chen et al. (2014) noted that there have been a number of theoretical models on the dynamic processes of *guanxi* building, maintenance, and use in a variety of fields such as management, marketing, and total quality management at the individual and organisational levels (Chen & Chen, 2004; Peng & Yang, 1999; Su, Mitchell, & Sirgy, 2007; Wong, Leung, Hung, & Ngai, 2007; Yau, Lee, Chow, Sin, & Tse, 2000). Scholars generally agree about the importance of *guanxi* building for both Chinese and foreign companies to do business in China (Bedford, 2011; Xin & Pearce, 1996; Yeung & Tung, 1996). However, there are a limited number of studies related to the process of *guanxi* building outside China.

My study analysed in depth how European-based CEs develop *guanxi* in the host country, with the purpose of furthering our understanding in this area of research by developing a process model of how *guanxi* is built at the interpersonal level in a Western context, and how it affects the adjustment of CEs. To examine these research questions, I conducted 25 in-depth interviews with CEs based in France, Germany, Luxemburg, Sweden, and the UK. Based on my observations, I identify the CEs' adjustment stages affected by their process of *guanxi* development.

In this chapter, I first review the existing literature about *guanxi* building and expatriate adjustment; next I explain how I collected and analysed the data and report findings from my analysis of the interviews. I then conclude by discussing these findings and alluding to the limitations of this exploratory research and its managerial implications. The contribution of this article is twofold: it is one of the first studies that applies and extends the *guanxi*-building process model, and it expands the stream of research on expatriate adjustment.

Guanxi building

Mayfair Yang (2002) described *guanxi* building as the transformation process whereby two individuals construct a basis of familiarity to enable the subsequent development of a relationship. In this process, the gap between two hitherto unrelated individuals is bridged so that an outsider becomes part of the inner social circle of another person (Yeung & Tung, 1996)**.** Scholars have confirmed that *guanxi* utilization significantly contributes to a firm's growth and success in the Chinese market (Gu, Hung, & Tse, 2008; Kotabe, Jiang, & Murray, 2008; Murray & Fu, 2016). Many scholars have explored the process of building, maintaining, and managing *guanxi*, showing how it is not only important for Chinese companies but also for Western ones operating in China (Chen, 2017; Chen & Chen, 2004; Leung, Wong, & Wong, 1996; Vanhonacker, 2004; Wong & Chan, 1999; Yeung & Tung, 1996).

Wong et al. (2007) explained the difference between Chinese *guanxi* and Western relationships: the Chinese approach focuses more on disciplined and cohesive values while Westerners emphasize fragmented societal values. Especially in China, gift giving has often been regarded as a major part of building *guanxi*. In the West, however, gift giving of significant economic value may often be viewed as illegal. As discussed in the previous chapter, Chinese values are rooted in the "rule of man," while Western societal values operate more on a "rule of law"; Chinese guanxi *building* is led by the "heart" while Western relationship building is managed by the "mind" (Wong et al., 2007).

Extensive research has investigated *guanxi* building in China among Chinese people and firms (Bu & Roy, 2015; Wong et al., 2007). In their study of Western firms in China, Murray and Fu (2016) found that some firms have a mechanism of internal *guanxi* to foster *guanxi* within their organisations. Internal *guanxi*-building processes involve interactions among employees at all levels that facilitate communication, clarify

managerial expectations, and resolve ambiguities in employees' roles. Hence, many employees believe that good internal *guanxi* with one's managers reduces the uncertainty associated with performance evaluation; it therefore enhances employees' team morale, trust in managers, job satisfaction, and organisational commitment.

Chinese MNCs have increasingly invested in the West since the 2000s, and CEs have brought Chinese business culture to the host countries. As *guanxi* building is central to Chinese culture, how *guanxi* is utilized as an important vehicle of social communication and influence outside China is still under-researched (Lo, Chen, & Wilson, 2013). From 2000 to 2018, some findings about *guanxi* outside China emerged in 12 empirical papers, but only three of them focused on *guanxi* (Chen, 2017; Li & Nuno Guimarães Costa, 2016; Tan & Snell, 2002), and the other nine studies mentioned *guanxi* in passing but focused on either Chinese MNCs' strategy of outward foreign direct investment (Li & Nuno Guimarães Costa, 2013; Ramasamy et al., 2012) or international assignment skills of Chinese expatriates (Lin et al. 2018;Wang, Freeman, & Zhu, 2013; Wang, Feng, Freeman, Fan, & Zhu, 2014; Yao, 2014; Yao et al., 2014, Yao et al., 2016; Yu, 2016) . Most of these studies revealed that *guanxi* has an impact on the adjustment of CEs—as discussed next—but they also pointed out that further research was needed on how and to what extent.

Expatriate adjustment

An expatriate's adjustment is defined as the degree of psychological comfort felt by an individual when he or she is sent to a foreign country (Black, 1988; Nicholson, 1984; Oberg, 1960). The degree of adjustment is measured by variables such as comfort or satisfaction with the unfamiliar environment, attitudes, and contact with host nationals (Wood & Mansour, 2010). In the literature on international business and management, the success of multinational corporations is frequently linked to the work of expatriates sent by headquarters to ensure communication to subsidiaries. Expatriation should be a two-

way interaction for both parties to learn from each other as well as to effectively bridge communication and maintain knowledge-sharing in a multinational corporation (Lauring, 2011).

CEs

Expatriates from emerging Chinese MNCs partly differ from Western ones. Compared with their Western counterparts, less exposure to international businesses challenges CEs. The leadership behaviours among CEs can also be different in terms of the generation they belong to and their career experience. Most CEs belong to either the generation of the Cultural Revolution (i.e., they were born in the 1960s) or that of the Social Reform (i.e., they were born in the 1970s), and each generation is characterized by its own distinct subculture. In terms of career experience, most CEs come from Chinese SOEs and private companies, with only a few of them from foreign MNCs, with important consequences for their leadership behaviours.

Yao (2014) also suggested that while Western expatriates perceive IAs as valuable opportunities for professional and personal development, CEs perceive them more as job requirements. Their focus is to ensure the implementation and completion of allocated tasks given by their parent companies. The CEs are assigned by Chinese MNCs as the senior management for administrative, financial control, and technical requirements (Shen & Edwards, 2004). Many Chinese MNCs use CEs as a "control mechanism" to manage overseas subsidiaries and maintain a close fit with the Chinese parent company (Yao, 2014). Rather than being selected for their competence of leading a multinational team, most CEs are selected according to their loyalty to the parent company, as well as for being someone who can be trusted to obey the "order" unconditionally.

In Yao's (2014) research, CEs are not interested in getting familiar with the new society because their long-term career goals are in China. Preserving their Chinese identities are important for the strong connections with their families (most CEs part with

their family members such spouse and children during IAs) and organisations. This is in contrast to the Western expatriates who want to develop international competencies and global identities. Most CEs, instead, have strong desires to return to their familiar cultural context.

Zhong, Zhu, and Zhang (2015) identified 84 academic journal articles in English from 2001 to 2013 on the management issues of foreign expatriates in China and CEs working abroad. Of the 84, 72 focused on foreign expatriates working in China but only 12 on CEs working abroad. It is noticeable that the population of mainland CEs who take IAs has not been well represented; their adjustment has been significantly under-investigated in spite of the fact that China has become the second-largest source of outward foreign direct investment (Zhang, 2017).

Collectively, these studies highlight advantages and disadvantages of *guanxi* building in the Western context. Research shows, for instance, that Chinese firms have largely relied on informal networking or *guanxi* before finalizing their investment decision; internalization advantages were only able to be realized when investing firms were good at utilizing networking and *guanxi*. *Guanxi* may mitigate the transaction costs of acquiring strategic assets (Li-Ying et al., 2013). *Guanxi* replication helps the Chinese parent companies in the definitions of their international expansion strategies (Li & Nuno Guimarães Costa, 2016). *Guanxi* building can be successful in developed markets, and Chinese firms can use *guanxi* when entering and expanding in developed markets, as well as in leveraging their existing *guanxi* with an overseas Chinese community to overcome the liability of being an outsider. However, its primary function shifts from initiating leads to retaining customers (Chen, 2017). *Guanxi* is a central factor for CEs to maintain or deepen connections with the home organisation and develop contacts within a new organisation (Yao et al., 2014). Good *guanxi* with managers and colleagues provides access to opportunities such as IAs and increases the chance of progression within the

organisation as well as expatriate selection and performance intervention (Yao et al., 2014).

The importance of *guanxi* has had an overall effect on the Chinese practices and processes of managing expatriates. CEs value *guanxi* over other factors such as skills and experiences in terms of their career progression. They perceive *guanxi* building as the work pressures in the early career stages (Yao 2014). In particular, *guanxi* replication seems to be a viable and proper process that favours the adjustment of CEs in Western countries (e.g., Portugal) where they are open to the *guanxi* concept, which facilitates the *guanxi* replication process (Li & Nuno Guimarães Costa, 2016).

Research, however, also shows that *guanxi* building is very time-consuming. Chinese managers with Western education and/or with international experience of more than 10 years tend to successfully build *guanxi* with Americans, while those with less than five years of international experience perceive *guanxi* with Americans as a major challenge (Chua et. al 2009). Whether it is the similar pattern between Chinese managers and Europeans is understudied. *Guanxi* is often viewed as ignoring one's responsibility to HCNs in certain conditions in host countries (Wang et al., 2013). *Guanxi* skills applied by Chinese managers may not be suitable for meeting host-country expectations in foreign locations, and they cannot be transferred directly to cross-cultural contexts (Wang et al., 2014). *Guanxi* may not necessarily be accepted by the Westerner, which may result in conflicts, misunderstandings, and miscommunications (Yu, 2016). The development of *guanxi* affects expatriates with regard to how they are seen and judged by host nationals, which directly influences their performance as well as the evaluations by their bosses (Li & Nuno Guimarães Costa, 2016).

Despite the disadvantages mentioned above, it is clear from past studies that both Chinese firms and expatriates can benefit from proper *guanxi* building, and that this process is especially critical for the adjustment of CEs. So far, several studies have explored the impact of *guanxi* on the expatriation of Chinese managers in terms of their

pre-IA as well as the connection and interaction with the parent company (Yao, 2014; Yao et al., 2014; Yao et al., 2016). Two papers have explored *guanxi* building by CEs with host-country nationals. One focused on the firm-level strategy (Chen, 2017). The other discussed *guanxi* replication and its impact on the adjustment of CEs but only studied it in one host country of Europe—Portugal (Li & Nuno Guimarães Costa, 2016). Yu (2016) also argued that CEs faced a significant challenge in adjusting their ways of building and maintaining *guanxi* with host organisation co-workers. Shi and Wang (2013) found that the main cause of culture shock for CEs is the differences between Chinese Confucianism and Western culture, such as communication and traditional issues. However, what specific Confucian culture and tradition cause culture shock has not been identified.

In this study, I explore how *guanxi* is developed in the West and how this process affects the adjustment of CEs.

A process model of *guanxi* building

Chen and Chen (2004) constructed a model of *guanxi* development to differentiate *guanxi* building into the three sequential stages of initiating, building, and using. At each stage, they examined three sets of variables: *guanxi objectives, interactive activities,* and *operating principles*. *Guanxi objectives* are to be reached through *interactive activities* of potential and actual *guanxi* parties, and *operating principles* underlie the interactive behaviours and moderate the relationship between these behaviours and *guanxi* objectives. The objectives are, at the *guanxi* initiation stage, to identify and create *guanxi* bases (*objectives)* through familiarization (*interactive activities)* based on mutual self-disclosure (*operating principles*); at the *guanxi* building stage, to enhance *guanxi* quality (*guanxi objectives)* through expressive (affective trust) and instrumental (cognitive trust) interactions (*interactive activities)* based on dynamic reciprocity (*operating principles*); and at the *guanxi* using stage, to get benefits and adjust relational quality (*objectives)*

through asking and giving favours (*interactive activities)* based on long-term equity (*operating principles*).

U-curve theory

Based on previous research, Black (1988) summarized four phases of expatriate adjustment as the U-curve. The first stage is referred to as a honeymoon stage. It occurs during the first few weeks after arrival, as the newly arrived expatriate is fascinated by the new and different aspects of the foreign culture and country. During this stage, the expatriate has not had sufficient time and experience in the host country to discover that many of his or her past habits and behaviours are inappropriate in the new culture. This lack of negative feedback and the newness of the foreign culture combine to produce the honeymoon effect. The second stage—culture shock—is identified by frustration and hostility toward the host country and its people when the newcomer begins to cope seriously with the real conditions of everyday life. This happens because the expatriate discovers that her or his past behaviours are inappropriate in the new culture and has received the maximum amount of negative feedback but as yet has not learned what to substitute in their stead. The third stage—adjustment—begins as the individual acquires some language skills and ability to move around on his or her own. In this stage the expatriate begins to find a way of dealing with problems and also has developed some proficiency in adopting the new set of behaviours. Finally, in the mastery stage, the expatriate's adjustment is generally complete, and the incremental degree of adjustment is minimal. In this stage, the individual now knows and can properly assume the necessary behaviours to function effectively and without anxiety due to cultural differences.

Grounded in the process model of *guanxi* building (Chen & Chen, 2004) and U-curve theory (Black, 1988; Lysgaad, 1955; Oberg, 1960), my qualitative study aimed at gaining a deeper understanding of how *guanxi* is developed in the West by CEs and how *guanxi* influences their adjustment experience while living in an international context.

RESEARCH METHOD

Research setting

My study was conducted in international branches of Chinese MNCs in France, Germany, Luxemburg, Sweden, and the UK. This choice is justified by the fact that these host countries represent diverse cultures in developed markets in Europe. Also, the UK, France, and Germany are the first, third, and fourth recipients of Chinese investment from 2000–2015 (Zhang, 2016) and where a large number of CEs are located.

To ensure diversity, I interviewed expatriates from different areas of business such as banking, telecommunications, aviation, energy, and the creative industry. The selected expatriates had different experiences abroad: some of them had many years of international working experience while others had recently started their international careers. I included informants in different career positions, including senior executives, middle managers, and technical experts. However, all of them had at least two years of working experience in the chosen host countries. To successfully reach them, I used my *guanxi* combined with a snowball strategy. Table 4.1 lists detailed information on the informants.

Table 4.1. Informants

Informant ID	Host country	Gender	Years of IA	Months before culture shock
1	France	F	30	24
2	France	M	20	12
3	France	M	5	10
4	France	M	2	no
5	France	F	3	8
6	Germany	F	10	24
7	Germany	F	5	12
8	Germany	M	2	12
9	Germany	M	15	24
10	Germany	M	8	12
11	Luxembourg	M	20	24
12	Luxembourg	M	5	18
13	Luxembourg	F	20	12
14	Luxembourg	F	15	10
15	Luxembourg	F	2	no
16	Sweden	M	5	24
17	Sweden	M	8	12
18	Sweden	M	10	30
19	UK	F	6	12
20	UK	F	20	10
21	UK	M	15	12
22	UK	M	5	10
23	UK	F	5	12
24	UK	M	18	36
25	UK	M	13	96
				18.24

Data collection

I conducted 25 semi-structured interviews in this exploratory study. The interview protocol included open-ended questions to facilitate the collection of past and current experiences of the interviewees. To protect the identity of our informants, their names are coded across the study.

I interviewed the informants in their native language, Mandarin, for 40 to 90 minutes each, as detailed in Table 4.2. I asked informants to discuss their previous and current experiences as expatriates in their host countries, including their efforts to build *guanxi* and adapt to the new context. I included questions such as “Whether and how do you build your *guanxi* in the host country?” “Why do you develop *guanxi* in the host country?” and “What is your experience of adjustment in the new environment?” Interviews were recorded with the permission of the informants for later transcription. Five interviews were conducted via Skype due to geographical distance and availability

issues. I imported the transcribed interviews into the qualitative analysis software Nvivo 11 as I collected them, and identified emerging themes as I worked through my sources. I adopted descriptive coding to pick reasonable evidences in the data as I read, and tagged them at the node section, then explored dimensions based on the characteristics of the informants. I also translated the transcripts into English to include as examples in the paper. I also collected quantitative data, indicated on Table 4.2, in terms of the timing when the informant experienced frustration during adjustment (i.e., culture shock); then I depicted the CE's adjustment stage, illustrated in Figure 4.4, according to the mean value of 18.24 months, which will be discussed when I later present the process model.

Table 4.2: Data Supporting Interpretation of *Guanxi* Development Affecting Expatriates' Adjustment

Theme	Representative Quotations
	Honeymoon Euphoria
Guanxi Initiation	I was very excited to work in Europe. My classmate in the university has worked here for a few years. He introduced me to some local people, and I went out with them quite often as I was very curious about their work and lifestyle in this country. (Informant 2) We get along very well although we come from different cultures. I don't think there is much difference between us in terms of the way we feel about relationships. We visited each other's homes and shared jokes and personal stories. (Informant 4) The local people are very warm, and I felt so welcomed, which was much better than I expected as I was told in China that Westerners lack human touch. One of my local colleagues invited me to her home and she has a lovely family. (Informant 8) The local culture is not that different from China; people like to get together talking about family and personal matters. I felt not alien at all. Our local business partners invited us out for drinks like we did in China. (Informant 10)
Guanxi Building	He is very kind and helped me at both work and family settle down. I also helped him get promoted in this subsidiary. Be honest, he deserved it as he's very capable. (Informant 1). We helped each other at work as she knows the local regulations and I know the parent company's policy. We are like sisters, we are of similar ages and we both have sons. Anyway, I see her as my friend, not only a colleague. (Informant 5) We actually shared a lot in common and trust each other. He always praised me how capable I am in my job, and I always praise him about his knowledge about Chinese culture. I am very impressed with his savvy about Chinese history and culture. (Informant 3)

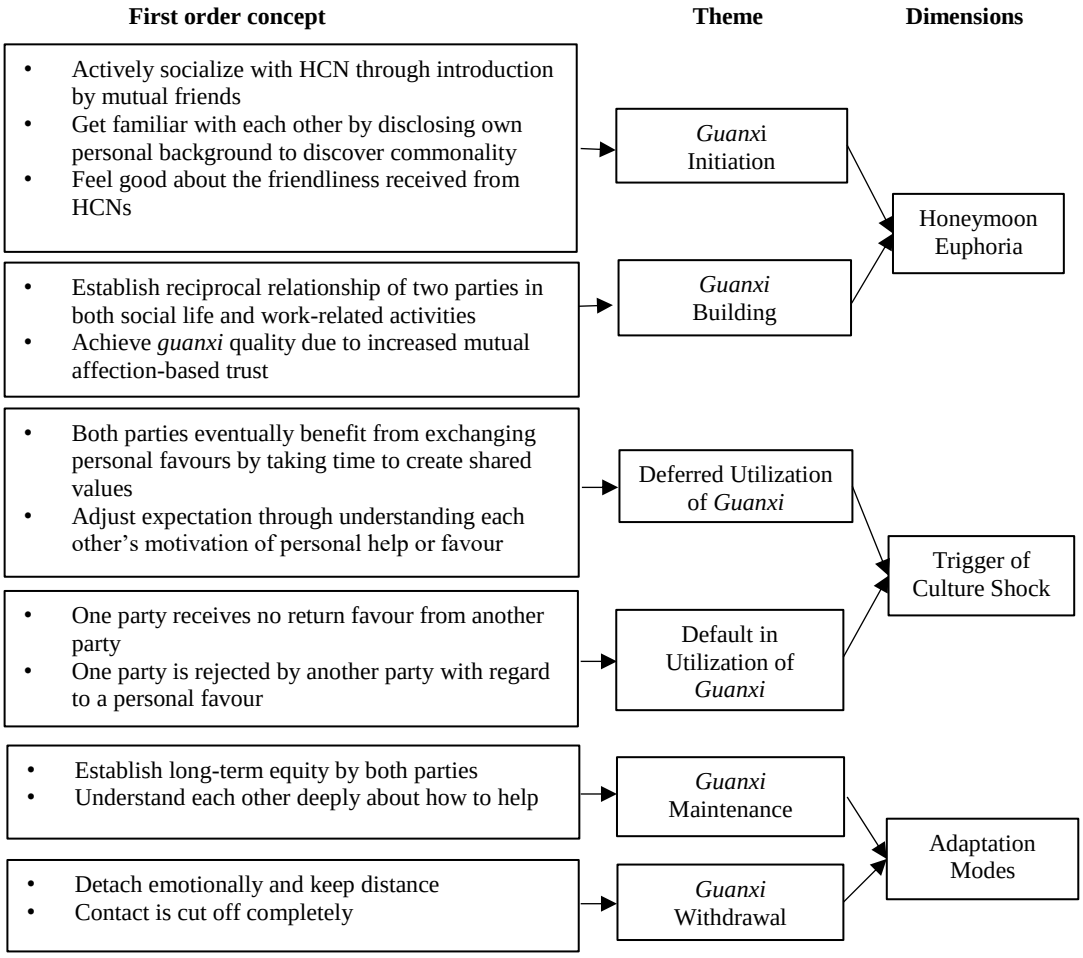
	He comes across hard, but he has a good heart. We used to argue about the way we implementing the policy assigned by the parent company. At the beginning, I thought he did not want to follow up. After he took so much time to explain to me the local protocol and my personal experience of working here, I started to appreciate how helpful he was. I really rely on him to handle the business in this country as I trust him very much; our guanxi is very close. (Informant 17)
	Trigger of Culture Shock
Deferred Utilization of *Guanxi*	My relationship with Andrew went through ups and downs. A couple of years ago, we almost fell over because he did not help me when I needed him to collect my daughter from the airport when I was in China because he was busy at work, although he apologized. I thought that any good friend would do it in China. Anyway, later on, he helped my daughter get into a very good school in this country; I am very pleased and grateful. (Informant 18) I really need this business to make my boss happy in China, Tom was the decision maker of my client, and I have known Tom since he worked in China 10 years ago. I could not believe that he did not give that business to me; instead, he recommended me to another potential client who was happy with our product. Still, I was very disappointed at the time. (Informant 6)
Default in Utilization of *Guanxi*	I was very shocked and angry when he rejected my request of his help on introducing me to a local authority in order to get approval of our business project in this country, which is critical for the company and my career. I used to help him by praising him to my boss in China as I really see him as a friend. I said to him that in China, true friends would try whatever they can to help each other, and he just simply said that he had to follow the local rules and ethics, and he was sorry he could not help much. To me, this is just an excuse! (Informant 7) Over the past few years, I tried my best to help her such as arranging Chinese class for her and got my friend in China to look after her family when they had holiday in China. However, I have not received any return favour from her apart from verbal thanks, and I realize that she takes my friendship for granted. (Informant 16) I helped his son get an internship in China a few years ago. However, when I asked him to get internships for my daughter in this country, he could not deliver it because he did not try hard. I am very disappointed and hurt. (Informant 15)
	Adaptation Modes
Guanxi Maintenance	I am very glad that I have a very good friend in this country; we trust each other very much. I believe that we will try our best to help each other in many ways. It took a long time to establish this close *guanxi* outside China, but all efforts are worthwhile. I feel safe living here because of this *guanxi*. (Informant 12) I am lucky that we became buddies after we went through cultural misunderstanding in the past. I was not aware how different we perceive personal relationships; he prefers “right”, and I prefer “reasonable.” Anyway, we have reached the stage that we trust each other deeply and we exchange favours without compromising our own preferences. (Informant 21) After 10 years, we really know each other very well; particularly, we know how to help each other. I would help her in Western way which ensures her the legality of what I am doing, and she would help me in Chinese, which makes me feel I can share my emotions with her at any time. (Informant 23)

Guanxi Withdrawal	I was really hurt when my so-called friend refused to help me when I needed him to defend me against the accusation from another department about my careless preparing of an audit document. He knew how much effort I had made on this initiative. I have recovered and realized that local people lack human sense; this is their culture, which is very different from Chinese culture. I have learned to detach and interact with local people in their own way, which is not very difficult for me. (Informant 22)
	I thought we had established good *guanxi* until the moment I could not get his support on my project. He said that he was not capable, but I believe that he did not want to help. Anyway, I understand that he wants to spend more time with his family but not friends. I have accepted and moved on without practicing *guanxi* with him anymore. (Informant 24)
	I learned my lesson that we have fundamental cultural difference with Westerners. They are rational and logical, and we are emotional and relational. Having gone through culture shock of getting no help from my local "friend," I have stopped developing *guanxi* but to behave like host country national to conduct normal social networking without much personal expectation. Now, I am getting used to this culture. (Informant 25)

Data analysis

I analysed these data employing grounded theory building to code and develop concepts, categories and themes which became the basis for theory. I broke down data into substantive codes in a line-by-line manner and compared incidents with one another for similarities and differences until the core category for the process of *guanxi* building and expatriate adjustment was merged. I conducted selective coding by employing *guanxi* building and U-curve theories to build up substantive codes into a substantive theory. The final data structure is illustrated in Figure 4.1, which summarizes the second-order themes on which I built the process model of *guanxi* building along with the expatriate adjustment stages.

Figure 4.1: Data Structure



FINDINGS

As illustrated in Figure 4.1, there are three main dimensions to the model of how *guanxi* development affects the adjustment of CEs: 1) honeymoon euphoria, 2) trigger of culture shock, and 3) adaptation modes. It reveals that the stages of *guanxi* initiation and *guanxi* building are in line with the honeymoon phase of expatriate adjustment. Their experience in the stage of *guanxi* utilization triggers culture shock, which causes them to adopt one of two adaptation modes: continue using and maintaining *guanxi* as a result of the deferred utilization of *guanxi*; or withdraw *guanxi* building due to the default utilization of *guanxi* and shift to the Western way of interacting with HCNs.

Honeymoon euphoria

All informants expressed their excitement when they received the IA in Europe. In addition to Western expatriates' fascination with what was new and different in the foreign culture and country, CEs also perceived the assignment in the West as a privilege and an expression of enormous trust granted by the parent company. In particular, they considered this a great opportunity to improve themselves through learning from the advanced West, rather than sharing or teaching best practices to a developed market, which is the main objective and mentality of the Western expatriates. Therefore, during this stage, CEs actively became involved in and initiated many activities through the people they knew in China or HCN colleagues at work. Coming from the deep-rooted *guanxi* culture in China, CEs normally initiated *guanxi* without realizing it.

Guanxi initiation. In line with previous research (Chen & Chen, 2004), this research shows that CEs took the initiative to interact with HCNs, in the following ways.

Actively socialize with HCNs through introduction by mutual friends. Before moving to the host country, in addition to attending pre-IA orientations arranged by the parent company, most CEs asked friends in China to make introductions for them to build

potential *guanxi* in the host country. This reflects the fact that Chinese prefer to make new friends through recommendations by mutual friends rather than "cold-calling," due to the prime motivation of affect-trust.

> I was very excited to get this opportunity working in the UK. I used to read a lot of English novels when I was in university, and I admire British history and culture. My friends in China have introduced me to their friends in the UK. During the first three months, I attended many parties after work and have known several local Chinese and British people. They were all very nice to me and I felt very welcome. People in the UK are very polite and helpful. I feel there is a lot commonality between Chinese and British. Also, comparing with where I come from in China, London is very clean and convenient. I was very happy to have this opportunity working here. (Informant 19)

Get familiar with each other by disclosing one's own personal background to discover commonality. In contrast to the cautiousness or emphasis on privacy in the West, CEs were very open about personal matters. In particular this was the way to build trust and test the waters of further action of *guanxi* building.

> I was introduced to a local potential business partner. I suggested to meet him in a café where we can feel relaxed to connect. He looked quite serious or maybe professional at the beginning, I then started to tell him my personal background and story, and actually, I did not talk about business at all in our first meeting. He might think I was odd, but after a while, he shared his background and personal story with me. Then, we realized that we are all football fan of FC Bayern Munichtory. (Informant 6)

Feel good about the friendliness received from HCNs. CEs regarded the politeness and friendliness as the same thing. Chinese can be quite reserved to strangers in official gatherings or business-related social networking but can be very warm and friendly to strangers in a gathering of friends or family. The Western politeness at the first meeting was perceived as surprising friendliness by CEs.

> When I started this job, I was overwhelmed by my local colleagues and even people on the streets, they were super friendly. Once, I lost my way home, an elegant old lady took me back. I attended many gatherings, wherever I go, people are so nice. I didn't miss home at all. (Informant 5)

In this stage, CEs were very open in meeting new people and gaining new experiences to familiarize themselves with the protocols of the host country.

Guanxi building. Having familiarized themselves with and opened up to each other in the stage of *guanxi* initiation, most CEs began to evaluate the new relationship with

regard to whether there was mutual benefit in terms of both expressive and instrumental transactions. Then they made an effort with the target party to increase mutual trust and affection by sharing personal emotions, organizing family events, and offering their help to the degree that they could deliver it without difficulty. If the other party received it well and also reciprocated, the foundation of *guanxi* between two parties in both social life and work-related activities was created.

Establish reciprocal relationship of two parties in both social life and work-related activities. Due to the blurred boundary between social and business life in Chinese society, CEs expected mutual reciprocity with their *guanxi* counterparts at all aspects in life.

> I like this country and I wanted to make friend with local nationals as I am far away from home, I might need help although my company provides strong support. I made a local friend, I felt so easy to connect with him because he is very interested in Chinse culture. I also felt that he was trustworthy. We invited each other to our homes. I cooked Chinese food for him and he cooked spaghetti for me. Every time when I come back from China, I would get some souvenirs for his children. He recommended a local school for my daughter. I believe we can help each other if we need to sort out some issues. (Informant 14)

Achieve guanxi quality due to increased mutual affection-based trust. CEs believed that *guanxi* quality was enhanced by deepening emotional connection, as the mutual trust was achieved through affection first.

> We became very close friend quickly after we met in a social event organized by the company. She is a very warm person and we got along very well. We went out for dinner or shopping periodically. We trust each other very much like sisters. We can share personal story and feelings easily. (Informant 5)

Trigger of culture shock

As explained earlier, unlike Western expatriates, the timing for CEs to experience the culture shock varies from months to years; according to the informants, this mainly depends on their experiences in the stages of *guanxi* utilization. This study reveals that they felt frustration and hostility toward the host country nationals when they discovered that their *guanxi* utilization behaviour was inappropriate in the new culture, and the difference between reality and their expectations was enormous.

In the *guanxi* utilization stage, two parties had reached a high quality of *guanxi* through trust at both the cognitive and affective levels, and they were ready to exchange favours and establish long-term equity. However, in the Western context, two consequences of *guanxi* utilization triggered CEs' culture shock. First, it may be that the personal favour was not offered at the time that one party expected but was delivered later due to different understandings of *guanxi* utilization by both parties (*deferred utilization*). Second, the personal favour may not be delivered as one party expected at all (*default in utilization*).

Deferred utilization. The ultimate goal of *guanxi* is favour exchange, reciprocity, loyalty, and obligation (Chen & Chen, 2004). At the stage of *guanxi* utilization, both parties have benefited from exchanging personal favours, and it is the moment of truth to prove the adage that "a friend in need is a friend indeed." Among the 25 informants, 10 of them managed to use their *guanxi* successfully to get personal benefits, but they also experienced culture shock because of the long and winding road they had been through.

Both parties eventually benefit from exchanging personal favours by taking time to create shared values. Fulfilling a personal favour was the touchstone for CEs in their *guanxi* dynamics, which revealed the fundamental values CEs and their *guanxi* counterparts sustain. However, a *guanxi* process cannot be completed without the success of personal favour exchange; therefore, CEs were willing to make more efforts.

> We are not only colleagues. We became very close friends 10 years ago, and our families go out together as well. His family stayed with us when they came to China for a holiday. He is senior than I am in the organisation, but we work in different departments and I do not report to him directly. However, when I applied for a senior position, as a member of the panel, he did not vote for me. I did not get the job and was very disappointed and shocked with his behaviour. He explained to me that I was not suited for the job, but he is my friend and he should have supported me. Anyway, later, he recommended me for another position, which is also a kind of promotion. I was the one who got the job among the three candidates due to his support. I am grateful, but his first reaction really hurt me. (Informant 9)

Adjust expectation through understanding each other's motivation of personal help or favour. It was a shared view that building *guanxi* requires patience and deep

understanding of each other's motives and needs. Given the vast cultural distance, some CEs were quite tolerant toward their HCNs' *guanxi* counterparts and willing to reflect and flexible in enabling personal favour exchange in one way or another.

> I recruited my assistant five years ago, I like him because he is very smart. I spent a lot of time to develop him over past few years, and I also care about him as a brother and tried not asking him to work over the weekends which is quite normal in our company. We have good *guanxi*. He sees me his mentor and friend. However, he submitted his resignation to me a couple of months ago when it was the critical time during the annual audit, and he was the only person understanding the whole protocols. I relied on him completely. He said sorry and sent me a thanks letter to express his gratitude, but he declined my request of helping me to stay for four more months. He said that this was just a job but not a private matter, anyone at work should be replaceable, it did not help myself by relying on him so much. He recommended another colleague to me to take his task. Initially, I was very resentful and hurt, I really took it personally. Then I cut off from him for a couple of months and turned down his invite for a drink in the bar after work. By the time the audit was completed, the person he recommended did fair job. I realized that he was right, I should develop a team rather my favourite person, also I should not have taken it personally about his leaving. Anyway, I eventually contacted him and now, we are not colleagues anymore, but real friends. (Informant 10)

In both cases above, although the *guanxi* practices of Informants 9 and 10 eventually did them a favour, their initial actions almost damaged their years of building *guanxi*, which triggered culture shock because they could not understand why their *guanxi* parties did not help when they needed. Given the "rule of man" culture, the affection-based personal support among *guanxi* parties is expected to be superior to business ethics. The 'touchstone' nature of a personal request is probably made unconsciously among Chinese, however, the Europeans might consider it unethical.

Default in utilization. This is the stage in which one or two parties eventually failed to use *guanxi* and the personal relationship was damaged or ended.

One party receives no return favour from another party. CEs took the initiative to offer favours in order to receive favours in need and perceived the shared understanding without explicit communication with their counterparts. However, HCNs were not able to capture CEs' intention or nuance:

> It took us two years to develop a good *guanxi* at work, although she is French, she likes Chinese culture and I like French culture. I trusted her a lot. As she doesn't understand Chinese, in two years, I helped her a lot at work to translate

> for her as we have many documents written in Chinese, as well Chinese colleagues speak Chinese in the office. I thought she would have appreciated and helped me as well. However, I was very disappointed that she never helped. For instance, I often organize the visit for the headquarter delegation during the weekend, and I hoped that she could have helped take them out as she knows this city very well and I even don't speak French properly, she always said she will try her best and then she gave me some reasons about something happen at home. Now, I have detached from her and I don't trust her anymore. (Informant 1)

One party is rejected by another party with regard to a personal favour. Indirectness or subtle and gentle demeanour to maintain face for all parties is one of the Confucian codes of conduct. Failing to help a *guanxi* party because of uncontrollable variables can put one in debt, but direct rejection of a favour to the *guanxi* party was perceived by CEs as a deadly sin due to the breach of the psychological contract as well as the huge face loss.

> He is one of my business partners in the UK. We got along well and shared a lot of information and affection. He introduced me to the pub culture, and we enjoyed having beer together periodically. I introduced him to Chinese food and tea. We shared leisure time together. In eight years, I trusted him very much and saw him my close friend and my good *guanxi* in the UK. However, when the local authority questioned our project in terms of ethical issues, he did not help me at all and detached himself from me. I could not believe it. I felt extremely hurt and resentful and also realized that he is very selfish and a cold-hearted hypocrite. Ever since, I am very cautious when dealing with local people and have initiated *guanxi* with nobody. (Informant 20)

In line with previous research (Chen, 2017), to the Chinese, affection is the first step in building *guanxi* with strangers, which is an emotional connection through mutual friends. When managed well, this *guanxi* further establishes cognitive and affection-based trust, which are prerequisites for long-term *guanxi* filled with constant personal favour exchanges. Therefore, when CEs perceived that *guanxi* was established and ready for utilization, the failure of delivery by another party would make CEs feel hurt emotionally, then confused mentally. However, in Europe, the sense of legality, ethics, and fairness properly exceeds personal affection and sense of personal obligation.

In addition, most experiences of *guanxi* development shared by the informants were their interactions with HCNs. Few of them also shared unsuccessful experiences with non-colleague HCC; however, these experiences did not trigger their cultural shock

because both parties could realize at the *guanxi* initiation stage that they could not resonate at a deep emotional level or have a feeling of trust, and they stopped the process tacitly without making offense. This is mainly due to the same cultural background and psychological makeup that both parties possessed, which can be perceived.

> She is a mutual friend of mine and my friend in China, she has lived this country for more than 10 years, she took me out for a lunch when I just arrived as my friend in China asked her to "look after" me. We had a pleasant chat; however, I didn't feel we could connect in deep level. She seems very Westernize and detached, a bit "cold" or too professional. Anyway, although we are all Chinese living abroad, I don't think we can establish real *guanxi*. We communicated via WeChat occasionally and stopped naturally after a while. This is quite common in China as well if you don't feel connected with someone. (Informant 23)

It seems that *guanxi* building ended after one unsuccessful attempt; actually, this 'attempt' is often at the expected 'payback time' by one *guanxi* party for his/her accumulated efforts for years.

Adaptation modes

Having coped with culture shock during the stage of *guanxi* utilization, CEs began to take one of two ways of dealing with problems, as well as to develop some proficiency in adopting the new set of behaviours in order to adjust.

Guanxi maintenance. This is based on the success of an exchange of personal favours when two parties have established deeper trust at both the cognitive and affective levels. CEs have learned to modify their expectations of the ways of using *guanxi* in the West.

Establish long-term equity by both parties. The most important benefit for CEs to build *guanxi* was the reciprocity in the long run. They maintained *guanxi* on a regular basis by exchanging affections and favours as they expected a long-term return in investment.

> I have lived here for 20 years. It took me quite a long time to establish close *guanxi* with one of my local friends. She is my former colleague. At the beginning, I was very Chinese, expecting her to help me in my way. After several occasions, I realized that I needed to win her trust by demonstrating how capable

> I was at work. I did a great job establishing an internal audit process, which helped the company gain a certificate from the local authority. Since then, she openly expressed her admiration about my achievement and we became good friends. I provided some tips to her of how to work in a Chinese company, and she helped me polish my English for my PhD thesis and find a great school for my daughter. I am sure we are life-long friends and will help each other forever. (Informant 11)

Understand each other deeply about how to help. Given the cultural distance between CEs and HCNs, they had different ways to help each other, which sometimes were perceived as sabotage by CEs. Even among Chinese, misunderstanding occurs often in a newly established *guanxi*. Fully and deeply understanding each other requires both parties to make efforts to avoid the common problem of the road to hell being paved with good intentions.

> I have lived and work here for 15 years and gone through hard time at first four years. I was a very traditional Chinese senior manager behaving like a big sister or mother and tried to make local colleagues work together like a family member. Then, I realized that the local people are quite self-reserved and private. I tried to invite some of them for tea and coffee at my home, and I failed several times. I thought they did not like me, but some of them really helped me at work and I have achieved because of their contribution. Then, I understood that Westerner set quite clear boundary between work and private life. I have very good *guanxi* with my two local friends who are my former colleagues and we still meet and help each other in many ways. (Informant 15)

The case of Informant 11 suggests that *guanxi* can be developed in the West; however, as noted by Chen (2017), CEs need to build cognition-based trust before affection-based trust. The second case suggests that cross-cultural understanding is critical to manage expectations and reduce bias toward alien culture.

***Guanxi withdrawal*.** In adapting to the failure of *guanxi* utilization, CEs detached emotionally and kept a distance from their *guanxi* parties. Therefore, *guanxi* quality deteriorated progressively, and contact was cut off completely. After a while, they adjusted and adopted host country social behaviours.

Detach emotionally and keep distance. Open disagreement or breakup is considered the worst manners in any relationship. If it was not a matter of life or death, due to the face culture CEs chose to withdraw rather than confront when in conflict.

> I was very disappointed and hurt for a while after my so-called best friend gave the business to another agent but me in his own rationale. However, I eventually let it go, accepted the fact that he is not Chinese, and will never understand what he has done to me. I did not argue with him. Instead, I detached and kept the

> emotions to myself. Since then, I have maintained a professional relationship with him just like typical working partners' relationship in the West. Now, I do not expect to build *guanxi* in this country, and I am fine with it. I actually live a much simpler life outside China and I start to enjoy it. (Informant 7)

Contact is cut off completely and one moves on. In the worst scenario, when CEs felt betrayed by the *guanxi* counterpart, they chose to give up, although with great difficulty, by justifying that cultural difference was too significant to overcome.

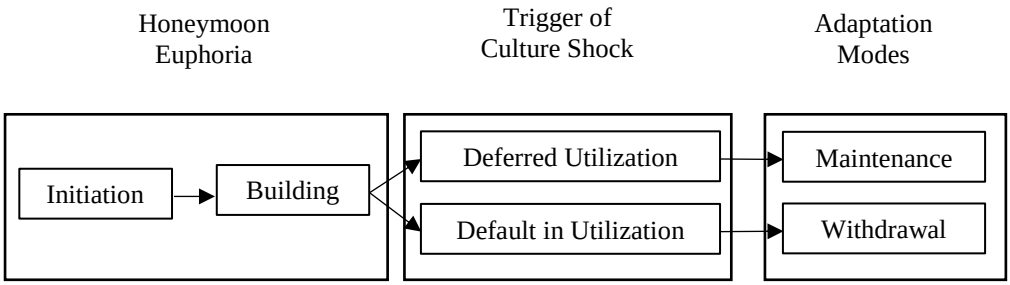
> I tried to build *guanxi* in this country when I joined this subsidiary. However, I had a bad experience that I trusted one local person very much, I introduced him to my *guanxi* in China to do business. He got into China market and never involved me. I cut off with him completely. Anyway, I learned my lesson, ever since, I have followed the local protocol to socialize with people but no more *guanxi* practice. I feel quite comfortable now. (Informant 21)

Building *guanxi* in China is properly the most natural thing for CEs; nevertheless, the challenge of using *guanxi* is widely recognized, given the constant change in terms of policy and regulation, personnel mobility, and social transformation. Thus, most CEs are flexible and skilful in managing their expectations when using *guanxi* under different circumstances. Subsequently, most CEs have managed to adapt to the host country during their expatriation, though this has typically taken a long period of time.

A PROCESS MODEL OF GUANXI DEVELOPMENT AND THE ADJUSTMENTS OF CHINESE EXPATRIATES

In the previous section, I reported a narrative description of the *guanxi* development by CEs in the host country and how the process evolved over time. In this section, I present a process model (visualized in Figure 4.2) that builds on my analysis to theorize how *guanxi* development affects the adjustments of CEs. This model builds on two theoretical frameworks – the U-curve adjustment and the *guanxi*-building process – which I introduced earlier.

Figure 4.2: A Process Model of *Guanxi* Development and the Adjustment of Chinese Expatriates

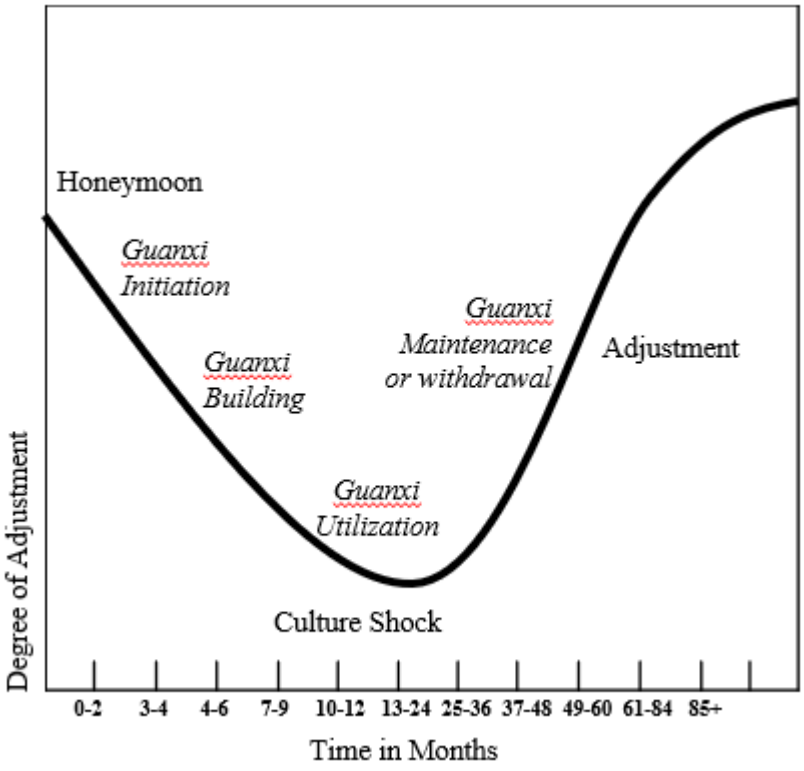


My findings suggest a strong relationship between the adjustment stage of CEs and their *guanxi* development stage. In the first stage of adjustment (honeymoon euphoria), although CEs are aware of the different environmental culture, unconsciously they carry on what they normally do in China. Given their excellent *guanxi*-building skill, which helped them get an IA opportunity in Europe, they quickly start the process to develop *guanxi* (*guanxi* initiation), set up a *guanxi* base, and interact with local people to familiarize themselves with *guanxi* candidates through mutual self-disclosure. Being prepared for a time-consuming process, CEs tend to take time to understand the candidate rather than rush into the next stage. When CEs have good feelings about the candidate, they make an effort to enhance *guanxi* quality *(guanxi* building*)* by sharing affection and work-related tasks through reciprocal activities.

CEs are still in the honeymoon stage while going through two stages of *guanxi* development. My observations suggest that the experience of using *guanxi* (*guanxi* utilization) triggers CEs' culture shock (trigger of culture shock). Two situations are observed at this stage: some CEs encounter unexpected reluctance from a *guanxi* party, but eventually get benefit by exchanging favours, and establish long-term *guanxi* in a delayed fashion (deferred utilization); other CEs encounter unexpected resistance from a *guanxi* party and fail to get benefit and exchange favours (default in utilization).

Either of these two experiences triggers culture shock in the process of CEs' adjustment. This leads to two actions of *guanxi* development in the stage of adaption (adaptation mode): having experienced deferred utilization, the CE re-evaluates *guanxi* quality, adjusts expectations, and maintains long-term equity (maintenance); or, having experienced default in utilization, the CE gives up *guanxi* development and detaches from the *guanxi* party (withdrawal).

Figure 4.3: V-Curve Adjustment



The honeymoon phase for 25 CEs, including stages of *guanxi* initiation and building, lasted from six months to eight years (see Table 4.1), and two of them had not experienced culture shock at the time of the interview. The mean value was 18.4 months, depicted as a V-curve in Figure 4.3.

DISCUSSION AND CONCLUSION

This is one of the first studies to apply and extend the *guanxi*-building process model abroad. My findings indicate that *guanxi* development abroad differs from *guanxi* development in China in three respects.

First, the process is more complicated, as it intertwines with the expatriate adjustment process. The *guanxi* initiation and building stages might be longer than in China, as the excitement of a new post and the perception of overwhelming friendliness from HCNs during the honeymoon stage can be misleading. Consequently, CEs are more enthusiastic in taking more time and effort than they usually do in China to build *guanxi* with HCNs, and they think it is normal to encounter reluctance or resistance from HCNs as it happens in China during the process of building *guanxi*, which delays their feeling of culture shock. Thus, the honeymoon stage of CEs is also longer than for Western CEs.

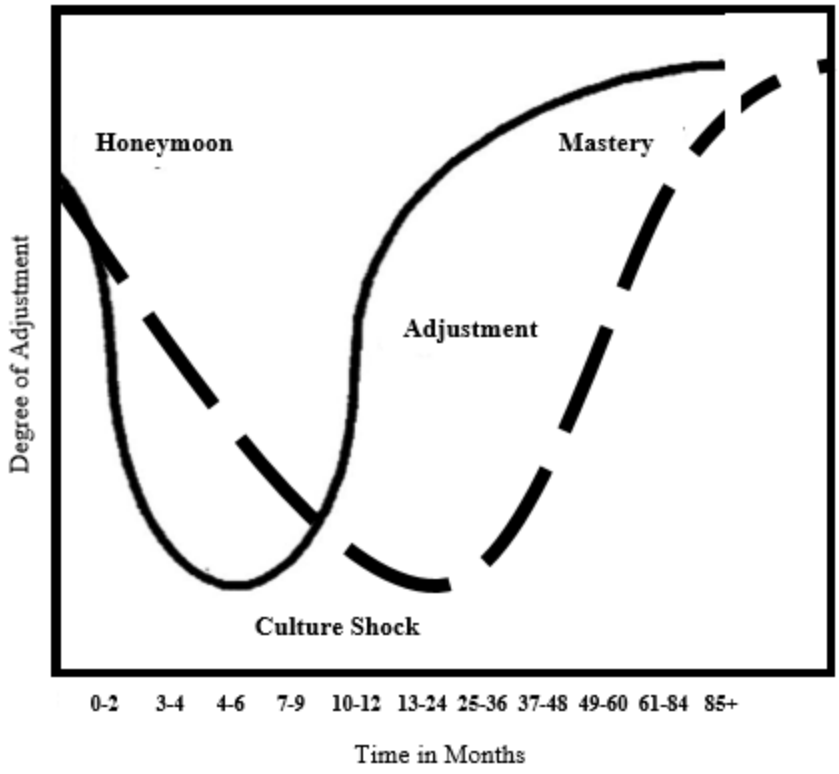
Second, shared value between *guanxi* parties determines the success of *guanxi* development. In China, it is recognized by both parties at the first stage of *guanxi* development (i.e., initiation), but given the different institutional and social context in the West, it challenges both parties, and the personal value tends to be realized at the utilization stage, when both parties have invested a great deal. Thus, if each other's values do not resonate, the relationship is impaired.

Third, I identify the specific stage (utilization) of *guanxi* development outside China where the cross-cultural misunderstanding and conflict occur. Along with the increasing time and effort that CEs spend in the first two stages, their expectation for HCNs to use *guanxi* for personal favour exchange is automatically increased. However, the tacit nature of *guanxi* building (Bian, 2017) might be completely miscomprehended by HCNs as the Western friendliness to CEs. Hence, the contrast of disappointment over favour exchange failure and high expectation of *guanxi* utilization is too large to tackle, which causes conflict between CEs and HCNs and triggers culture shock for CEs.

My study also expands the stream of research on expatriate adjustment in two respects. First, previous research based on Western expatriates has noted that good relational skills help expatriate adjustment (Black, 1988; Black & Mendenhall, 1991); in contrast, CEs who benefit from their own superior relational skills in gaining an IA opportunity suffer culture shock due to developing *guanxi* with HCNs. Therefore, it reveals the distinction at the personal value between Western social networking or interpersonal relationships and Chinese *guanxi*.

Second, research on Western expatriates shows that they normally start to feel culture shock after three months, indicated as a U-curve (Black, 1988, Black & Mendenhall, 1991). However, the CEs I interviewed took from six months to eight years. Their honeymoon stage, depicted by the dotted line in Figure 4.4, is therefore much longer than for their Western counterparts. This result shows that *guanxi* development alters the usual timing of the adjustment curve.

Figure 4.4: U-Curve vs. V-Curve



Given the pervasive nature of *guanxi* in Chinese society as part of deep-rooted national culture, CEs have brought not only business but also *guanxi* to the West. This research on perceived cultural distance between China and the five European countries (Hofstede, 2001) reveals that most CEs experimented with *guanxi* building almost unconsciously in the early stage of their expatriation. Constricted by the time-consuming character of *guanxi* building, CEs tended to be more patient and tolerant when they interacted with HCNs, which prolonged the honeymoon euphoria during their adjustment. Most CEs were aware that it is time-consuming to develop *guanxi*; nevertheless, it is a personal investment in time, emotion, and money — in particular in the host country, where there is a lack of a *guanxi* base such as family and kinship. Therefore, they were quite selective with regard to the *guanxi* candidates and tended to be cautious about taking the next step after the *guanxi* initiation stage, as they would like to ensure long-term equity.

Among all informants, no CE returned to China because of maladaptation, but they eventually did so because of job rotation or promotion. This actually reflects the flexibility and pragmatism of Chinese culture, as it enables CEs to overcome the culture shock as long as they are aware of the cultural difference between Chinese *guanxi* grounded in affection at the emotional level and Western social networking anchored in cognition at the rational level.

Concerning managerial implications, this chapter provides some insights and guidelines toward *guanxi* development outside China and its impact on the process of adjustment of CEs in the Western context. Two suggestions for Chinese MNCs, SOEs in particular, come out of this research.

The first suggestion is to establish an organisational culture to underpin the globalisation strategy, which is embedded in national cultures but opens to diversity and embraces multicultural values, such as in the Tang dynasty, a thousand years ago, at the heyday of multicultural integration in China, when the values of Confucianism, Daoism,

Buddhism, and Christianity were allowed to coexist. Then, strategize *guanxi* development to adapt to the values and norms of the host country. The affection trait of *guanxi* is well received in the West due to human nature. However, given the top-down culture in Chinse MNCs, this culture needs to be enabled by the top management at the board level, who must have business vision and insight from the global perspective, not just political savvy.

The second suggestion is to redefine the HRM strategy by selecting, developing, and deploying cross-cultural talents who are from various cultural backgrounds, not limited to Chinese. The criteria for expatriates' selection should emphasize cross-cultural competency, emotional and cultural intelligence, and international communication skills in addition to language proficiency. In addition, the company should provide systematic pre-IA training for CEs to help expatriates go through the adjustment stage by improving their understanding of cross-cultural differences in the business, social, and legal domains, and raising their self-efficacy and perception skills toward alien cultures before sending them abroad.

Limitation

Although this exploratory study opens up interesting prospects for future research concerning *guanxi* building in Western countries, it did not examine how HCNs perceive *guanxi* building and the level of their acceptance. Further research could also advance this exploratory study by testing the model of *guanxi* development and the V-curve relationship. It would certainly be important to understand how *guanxi* can be developed effectively across cultures to facilitate the process of CEs' adjustment as well as the local acceptance of Chinese MNCs. Furthermore, all informants have worked for large Chinese MNCs, which provides them with a strong sense of security during IAs that might help them a great deal in going through their adjustment. Therefore, future research could explore how CEs from small- and medium-sized companies make their own adjustments.

5. CONCLUSION

It is not surprising that western HCNs have reacted strongly to the speed of China's unprecedented economic rise, especially given the contrast between Chinese culture and institutions and western systems. The concept of business in China is not the same as it is in the West and, to some extent, maintaining good *guanxi* is paramount for personal welfare and business prosperity for Chinese people, with blurred boundaries between business, politics and social life. Confucian values, such as *guanxi,* hierarchy and harmony, determine the behavioural patterns of people working in Chinese MNCs. As Hammond and Glenn (2004, p.29) concluded, it "is a naïve perspective" to suppose that "forces of globalisation will eliminate the need for *guanxi*".

In my dissertation, I have achieved my research goal of understanding how the employees of Chinese MNCs employ *guanxi* in the West, how the practice of *guanxi* affects multicultural group dynamics, how Chinese expatriates develop *guanxi* in their host countries, and how these behaviours affect their adjustment. I conducted total 71 semi-structured in-depth interviews (including Chapter 3 and 4) with informants representing three cultural clusters (mainland Chinese, HCC and HCN) based in seven European countries, France, Germany, Luxemburg, the Netherlands, Portugal, Sweden and the UK, thus studying a range of cultural and institutional contexts in the West.

The key findings of my study are the following.

First, at the intra-firm level, CEs actively practice *guanxi* with their homeland counterparts, but they do not do so with host-country nationals and host-country Chinese. The practice of *guanxi* therefore fosters the cohesion of the CE group and merges the HCC and HCN groups, but it enlarges the social distance between the two Chinese groups, the CE group and the HCC group. Second, at the extra-firm level, CEs tend to make an effort to develop *guanxi* with both HCNs and HCC, which significantly alters their adjustment curve.

In particular, the findings reported in Chapter 3 indicate that intra-firm *guanxi* practices by CEs have a strong impact on group dynamics in the host country. Most CEs are not aware of the unspoken or unconscious needs of HCC and HCNs to participate in *guanxi* practices, and, in contrast, CEs assume that HCC and HCNs are ambivalent towards *guanxi*. CEs' detachment from *guanxi* practices with their host country peers has a negative effect on intra-firm group dynamics and ethics.

The findings reported in Chapter 4 suggest that the process of the development of extra-firm *guanxi* significantly affects the adjustment of CEs, making their honeymoon stage much longer than that of their Western counterparts; in particular, the culture shock often occurs at the "moment of truth" when a return on investment by utilising *guanxi* is expected. However, most Chinese MNCs and CEs are misled by the longer honeymoon stage because of the time-consuming nature of the initiation and building of *guanxi*; hence, they are not aware of the great cultural differences while interacting with westerners.

My findings contribute to social network theory in the cross-cultural context, as mine is one of the first studies to offer insights from data from Chinese SOEs expanding into developed markets. The investigation extends the theory by proposing: 1) a model of *guanxi* practice affecting group dynamics, detailing in/out group activation, allowing multinational firms to overcome the in/out group barriers arising from the misuse of *guanxi* and ultimately to build high-performing teams in host countries; and 2) a process model for the development of *guanxi* from the perspective of the adjustment of Chinese expatriates in Europe and the V-curve adjustment, taking into account contextualised constructs like culture shock and degree of adjustment.

This thesis also expands the stream of research on *guanxi* in particular, and social network ties in general. It investigates the role of *guanxi* in the globalisation of Chinese firms within developed economies. Hence, the research offers a first step in a dynamic view of a concept that results from Chinese culture but has been brought into the modern

business environment. The findings provide insights into which elements of *guanxi* are transferable to the business networks of developed markets, by illustrating a framework and models for their impact and importance.

Bian (2017) emphasised the significance of *guanxi* and its tacit nature, rooted in Confucian culture. He also echoed the late Chinese sociologist and anthropologist Fei Xiaotong, who held that studying and discussing *guanxi* in Chinese culture provides an invaluable opportunity for the next generation of Chinese scholars to contribute to international sociology. This thesis specifically studies *guanxi* in the international social context, contributing to the accumulation of knowledge in this field. Bian (2017, p.264) also raised questions such as these: "Under what institutional conditions do 'Chinese-ised' *guanxi* networks and 'westernised' structural-hole networks coexist in China? What role does each of these types of networks play in the social and organisational lives of both Chinese and non-Chinese organisations?".

The findings of this thesis provide some answers to these questions. I show that there is a coexistence of Chinese *guanxi* and Western social networks in Chinese MNCs operating in the West, with Chinese organisational culture being brought by CEs into the Western social domain, and Western social behaviour being foregrounded by HCNs, although this takes place outside rather than inside China. The role of *guanxi* is paradoxical. It helps CEs enormously in maintaining a sense of security and the coherence of the CE group when they are away from their home country, and in building long-term relationships with HCNs outside work for mutual benefit. On the other hand, it creates a distance between CEs and HCC, which lessens the motivation for HCC to work for Chinese MNCs, as well as reducing their loyalty. It also misleads CEs by prolonging their honeymoon stage of adjustment, which causes a deeper level of culture shock. The key role of networks in Chinese organisations operating in the west is primarily positive, which creates coherence between HCNs and HCC in the workplace.

Managerial implications

The models developed in this research explain how it was possible for managers from China to enter developed markets successfully and to establish effective relationships and international assignments in developed countries. The model for how the practice of *guanxi* affects intra-firm group dynamics suggests that Chinese firms may create cohesion within multicultural groups and build high performance teams through the practice of *guanxi* not only by CEs but also by members of the HCC and HCN groups. However, this process requires two things: 1) CEs themselves need to go through an adjustment process for building *guanxi* in the developed country; and 2) there must be a focus on building cognitive and affect-based trust as well as positive commitment. As a result, an emerging market SOE expanding to a developed country should deliberately consider those requirements with respect to its human resource recruitment and cross-cultural talent development strategies.

The process model for the development and adjustment of *guanxi* by Chinese expatriates gives detail on the process of building *guanxi*, and contrasts the approach in Western countries to the familiar Chinese *guanxi* building process. To initiate business in developed markets CEs should first focus on building cognitive trust through cross-cultural competence, professionalism and open communications that consistently exceed the expectations of their Western counterparts. At a later stage, the focus should shift to building affective trust and positive commitment. This may be achieved by stressing long-term mutual benefits and focusing on the development of *guanxi* with key stakeholders. Having established a positive *guanxi* culture, CEs can access the business network in the developed country.

In particular, Chinese SOEs striving to achieve competitive advantage in global markets need to understand the dynamics and differences in *guanxi* building when they are expanding overseas. The ability to build and manage *guanxi* in different parts of the world is critical for the success of SOEs. They must learn how to form their international

strategies in terms of cross-cultural management and human resources management, according to the changing requirements of developed markets.

Limitations and future research

The theoretical insights from this thesis, as well its limitations, suggest some fruitful directions for future research. All CE informants in this study had only worked for SOEs in China. The model of the development and adjustment of *guanxi* by Chinese expatriates argues that the practice and building of *guanxi* may improve the sense of belonging for HCC and mitigate the culture shock of expatriate adjustment. Building on this, future research should look specifically at CEs from non-SOE firms and examine whether and how they build and adjust *guanxi* when working in developed countries.

In terms of methodology, a quantitative approach would be useful to test the models developed in this thesis. The model of how the practice of *guanxi* affects group dynamics can be tested in the institutional domain, which is task-driven, and the social domain, which is relationship-driven. The V-curve model can be tested through questionnaires and surveys. This approach may also be combined with one that investigates different settings from those considered here. For example, *guanxi* dynamics can be examined in other developed markets such as the USA.

Chen et al. (2013, p.199) hoped that "*guanxi* theories and research would not only help illuminate the complexity of *guanxi* in Chinese organisations and societies but also that of human relations in the rest of the world". This thesis has explored *guanxi* from the perspective of the rest of the world, particularly shedding light on two under-investigated territories (Chen et al., 2013): 1) how dyadic intergroup *guanxi* practices affect multicultural work-group dynamics; and 2) the empirical evidence for the process model of *guanxi*, which previously was largely conceptualized. Finally, I would like to take the liberty of suggesting to Dr Clotaire Rapaille that, in his next edition of *The Culture Code*, **the Chinese code for China should be *Guanxi*!**

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