



Instituto Superior de Economia e Gestão

UNIVERSIDADE TÉCNICA DE LISBOA

DESDE 1911

MESTRADO EM CIÊNCIAS EMPRESARIAIS

TRABALHO FINAL DE MESTRADO DISSERTAÇÃO

THE IMPORTANCE OF *GUANXI* FOR INVs DOING
BUSINESS IN CHINA – A CASE STUDY APPROACH

DIOGO RAIMUNDO FILIPE TAVARES

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ORIENTAÇÃO:

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Acknowledgments

For having bestowed upon me the woman I love, good friends and a lifetime experience, I thank you, China.

Abstract

In the last two decades the business world has been quaked by a new type of enterprises, the International New Ventures (INVs). And it has been dazed as well by the swift emergence of a new economic key player: China. Small companies that internationalize almost since inception are growing steadily and comprising all business scopes throughout the world. These companies lack resources and the means to obtain them, so their entrepreneurs will rely on networks to access resources and new opportunities. In China networking is especially imperative, where *guanxi* is more than a business tool, it's in fact a way of living. Chinese rely on *guanxi* for all social aspects of their lives and there is a special etiquette while applying and conducting *guanxi*. This dissertation's central question is the importance of *guanxi* for foreign countries doing business in China, and in order to answer it, a multi-case study approach was followed, composed by four INVs whose business scope are different from each other.

Results showed that *guanxi* was vital for the formation of the business, it was the network developed in China that allowed the entrepreneurs to found their own companies. Half of the interviewees agreed *guanxi* is ethically reprehensible, due to the promiscuity and collusion it creates within the economy. Very important is the fact that all four companies are extremely dependent on *guanxi* to proceed with their daily operations, and regard *guanxi* as essential for the future evolution of the company inside China.

Overall, *guanxi* is essential for foreign companies identify, maintain and enhance business in China.

Key Words: Entrepreneurship; Internationalization; *Guanxi*; China; International New Ventures

Resumo

Nas últimas duas décadas, o mundo empresarial tem sido revolucionado por um novo tipo de empresas, as *International New Ventures (INVs)*. Outro acontecimento que tem deslumbrado o mundo é a rápida emergência de um novo interveniente económico: a China. A internacionalização de pequenas empresas aquando da sua fundação está a aumentar firmemente, e abrange praticamente todos os sectores económicos. Estas mesmas empresas dispõem de poucos recursos, e os empreendedores tentam recorrer a redes de contactos para aceder a recursos e oportunidades de negócio. Na China, a utilização de redes de contactos é especialmente imperativa, onde o *guanxi* é mais do que uma ferramenta de negócio, mas uma forma de viver. O povo chinês depende do *guanxi* em todos os aspectos da sua vida e uma determinada etiqueta social é necessária enquanto se aplica e conduz *guanxi*. A questão central desta dissertação é a importância do *guanxi* para as empresas estrangeiras que façam negócios na China, e de maneira a responder adequadamente á questão foi elaborado um estudo de vários casos, composto por quatro *INVs* cujas áreas de negócio são diferentes umas das outras.

Os resultados mostram que o *guanxi* foi essencial para a formação das empresas, e foi a rede de contactos que os empreendedores desenvolveram na China que permitiu a criação das mesmas. Metade dos entrevistados concordaram que o *guanxi* é eticamente condenável, dada a presumível promiscuidade e conluio que provoca na economia. Um facto muito importante é o de que as quatro empresas foram, e são, extremamente dependentes do *guanxi* para a manutenção das suas operações diárias, e consideram o *guanxi* como fulcral para a futura evolução das suas empresas na China.

Concluindo, o *guanxi* é fundamental para as empresas estrangeiras identificarem, manterem e melhorarem os seus negócios na China.

Palavras Chave: Empreendedorismo; Internacionalização; Guanxi; China; Internacional New Ventures

Table of Contents

Acknowledgments	3
Abstract	4
Resumo	5
Table of Contents	7
1 Introduction	8
2 Literature Review	10
2.1 International Entrepreneurship	10
2.2 Social Networks	14
2.3 Guanxi	17
2.4 The Chinese Miracle	21
2.4.1 Period 1978-1984	23
2.4.2 Period 1985-1988	24
2.4.3 Period 1989-1992	24
2.4.4 Period 1993-2005	24
2.4.5 Period 2005-Present.....	25
3 Methodology	26
3.1 Case Selection	26
3.2 Data Collection and Analysis	27
4 Companies Profile	28
4.1 Quinta da Bichinha	28
4.2 PRO Architects	29
4.3 Djamalov Commodities	31
4.4 Mali Lopéz	32
5 Case Findings and Discussion	34
5.1 Previous international background and company formation	34
5.2 Guanxi ethics	35
5.3 Relevance of guanxi in the firm operations	36
6 Conclusions	39
7 Bibliography	41
8 Appendix	46

1 Introduction

Small companies that internationalize swiftly and their subsequent globalization have gradually drawn notice since the early works of McDougall and Oviatt (e.g., McDougall, 1989; Oviatt and McDougall, 1994). International New Ventures (INVs) enter international markets since their foundation or shortly after it, and experience high international development, albeit being inhibited by resource insufficiency and liabilities of newness and foreignness.

The success of these companies, particularly those chasing niche strategies, depends on their capacity to internationalize their processes, and due to the limitations they face; trusting on relationships with others is almost inevitable while endeavoring for a share in a foreign market. In the case of small companies this is especially true, since these relationships are often of a private kind, between entrepreneur and members of his social network. Through the use of networks, INVs can mitigate several constraints of internationalization, such as decreasing the effect of resource scarcity, liability of foreignness, liability of newness and others. Networks can also help INVs identify new international opportunities, and those same networks are more efficient choosing the target countries than the physic distance criteria.

The usage of social networks by entrepreneurs' contrasts across countries and institutional environments. Emerging countries (e.g. China and Russia) typically possess low levels of institutional development and therefore tend to trust on social networks much more than developed countries (e.g. U.S.A and Germany) (Kiss and Danis, 2008).

In this study we focus on the specific case of China, where lies a unique networking feature, which is embedded in the country for thousands of years, named *guanxi*. *Guanxi* can be defined as a unique kind of particularistic ties that links the borderline spanners of exchange partners through social events, mutual responsibilities and favor exchanges (Peng and Luo, 2000; Davies, Leung and Luk, 1995).

Therefore I propose exposing and studying four INVs, which entered into the Chinese market, in order to answer one main question: "is guanxi important for INVs doing business in China?"

Hopefully, this case study will help unfold the crucial importance of *guanxi* while discovering, enacting, evaluating and exploring opportunities in China and the utmost role *guanxi* plays in daily operations of INVs doing business in the country and therefore will assist INVs looking to explore China as a potential target for future endeavors.

This study is organized as follows. First a literature review is provided, in which I describe summarily the field of International Entrepreneurship, followed by a review of the work already made regarding social networks, which are becoming gradually important in the field of International Business and International Entrepreneurship. Still in the literature review chapter, there is an explanation of what *guanxi* is, how it works and its implications in international business. The last part of this chapter includes a brief analysis of the economic evolution of China since the Chinese Revolution of 1949 until present days.

In the third chapter I present the research methodology, where two subchapters explain the cases selection, data collection and analysis processes.

A brief characterization of the four case companies selected for this study is presented on the fourth chapter, the companies are Quinta Da Bichinha (wine company) represented by me, Diogo Tavares; Pro Architects (Architecture company) founded by the Portuguese Pedro Roldão; Djamalov Commodities (trading company) founded by the Uzbek Aziz Djamalov and finally Mali Lopéz (Tour guide and translation services company) founded by the Spanish Maria Lopéz.

The fifth chapter comprises the case findings and subsequent discussion, after which the sixth chapter displays the conclusions found on this exploratory study.

2 Literature Review

Firstly, in this chapter, I will present an overview of International Entrepreneurship (IE), from its inception to the latest developments of this relatively new field of study. The purpose of this field is to demonstrate and analyze the importance of “the discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods and services” (Oviatt and McDougall, 2005, p. 540), which, due to globalization, is becoming an increasingly present-day fact.

Secondly, one hopes to shed light and understanding on Social Networks, which are of vital importance within IE, allowing entrepreneurs to discover international opportunities, establish trustworthiness, form strategic alliances, lower transactions costs and reduce risk (Greve and Salaff, 2003).

Thirdly, focus on a specific type of social network, *guanxi*, which is as a unique kind of particularistic ties that links the borderline spanners of exchange partners through social events, mutual responsibilities and favor exchanges (Peng and Luo, 2000; Davies et al, 1995).

Lastly, considerations of the specifics of the evolution of Chinese economy since the founding of the People’s Republic of China in 1949, and its remarkable ascension from one of the least developed countries to the second largest economy in the world.

2.1 International Entrepreneurship

Research on firm internationalization has been, for almost four decades, subject of great interest. (Bilkey and Tesar, 1977; Johanson and Vahlne, 1977, 1990; Cavusgil, 1980; Reid, 1981; Turnbull, 1987; Andersen, 1993).

Two important streams of research have evolved within the International Business (IB) study arena, the “Uppsala Internationalization Model (U-M)” (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) and the “Innovation-Related Internationalization Models (I-M)” (Bilkey and Tesar, 1977; Cavusgil, 1980).

Both these theories argue that firms slowly and incrementally become more and more international, mainly due to unawareness regarding international markets, risk aversion, and other factors (Madsen and Servais, 1997). The U-M model argues that

internationalization is a step-by-step time consuming learning process, while the I-M model shows us that this process is “an innovative course of action” (Madsen and Servais, 1997).

It is clear that both models abstract internationalization process as an incremental one, in which companies target physically close markets and use exportation as their main mode of entry in those markets (Oviatt and McDougall, 2005).

However, research has alleged the stages model has being limited and too deterministic (Reid, 1983; Turnbull, 1987). Bell (1995) and Lindqvist (1988) defy the traditional approach of step-by-step internationalization by suggesting that:

- The way companies entry into foreign markets, their speed and pattern of international market growth are influenced by their level of relationship with the stakeholders (Lindqvist, 1988);
- Relationships between companies and their suppliers and customers are deterministic in both market selection and entry in foreign markets (Bell, 1995).

Several empirical studies also contradict the stages theory of internationalization (e.g. Welch and Luostarinen, 1988; Burt, 1992), and found that a great number of companies had jumped stages and started international transactions within their first year of existence. Other authors report that recent technological breakthroughs in transportation and Information Technology (IT) allowed the formation of new ventures that internationalize very fast, even from their inception (Knight and Cavusgil, 1996; Oviatt and McDougall, 1999, 2005).

These new studies are the beginning point of a new field of research – International Entrepreneurship (IE) – with special emphasis to the Oviatt and McDougall’s (1994) article (Autio, 2005).

IE is the intersection of International Business and Entrepreneurship theory, and although it is an interesting and actual field of research, it has many theoretical contradictions and flaws that undermine the understanding of this subject (Keupp and Gassmann, 2009).

International Entrepreneurship definitions have evolved over time. McDougall (1989, p. 388) defined IE as “the development of international new ventures or start-ups that, from their inception, engage in international business”. Later, in 2000, McDougall and

Oviatt (2000, p. 903) defined IE as “a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations”.

More recently, Oviatt and McDougall (2005) present a definition where IE is conceived as “the discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods and services” (Oviatt and McDougall, 2005, p.540).

IE literature focus on three essential points (Keupp and Gassmann, 2009):

1. The propensity of small and young companies to internationalize.
2. Antecedents of internationalization, survival and performance of the international new ventures.
3. Demographic and mental characteristics of the entrepreneurs and their actions within the internationalization.

Different concepts have emerged within the IE field of research, McKinsey and Co. (1993) presented a study of Australian Small and Medium Companies (SME's) that positively competed against well established players in the international markets, and named these companies Born Globals (BG). Other similar concepts that study the same phenomenon are: 'Global Start-Ups' (Oviatt and McDougall, 1994), 'International New Ventures' (Oviatt and McDougall, 1994) and 'Instant Exporters' (McAuley, 1999). The emergence of International New Ventures, defined as “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs to multiple countries”, was firstly reported by Oviatt and McDougall (1994, p. 49). Actually, this work is usually accepted as the starting point of IE field (Autio, 2005; Keupp and Gassmann, 2009).

These International New Ventures internationalize their operations from or near-after inception, with characteristically fast growth and entrepreneur's prior experience in international markets (Kuemmerle, 2002).

The main characteristics of BG, are described by Andersson and Wictor (2003) as:

1. Initiation of exportation within 2 years from their inception.
2. Exportation of at least one quarter of total sales.
3. Small companies, not surpassing \$100 million annual sales.

4. World is recognized as its marketplace from the inception.
5. Founded by energetic entrepreneurs.
6. In possession of a unique product, innovative technology or a new way of developing business.
7. Products sold usually involve considerable value added.

Both the terms INV and Born Global are used to portray companies that internationalize hastily, stereotypically but not solely within three years of their business founding. The term “global” advocates companies have a presence in at least the world’s triangle regions and debatably a pledge spread across them. INV’s though, might have internationalized speedily to tackle opportunities but without essentially a worldwide presence (Crick, 2009).

Although there are different views towards some characteristics of all these concepts within IE, there is consensus regarding the rapid pattern of internationalization and its development, and also the alternative type of governance structures used (Madsen and Servais, 1997).

Oviatt and McDougall (2005) advanced a model of the forces that influence the speed of internationalization, in which they claim speediness is enabled by technology, motivated by competition, mediated by the entrepreneur and moderated by the knowledge intensity of the opportunity and the entrepreneur’s international network.

Jones and Coviello (2005), also argue that internationalization is time sensible and dependent on how strong are the ties of the relationships within networks.

Overall, these authors maintain that internationalization behavior is largely influenced by the interactions involving entrepreneur, firm and surrounding environment. As a consequence, international behavior affects market enactment and influences the relationship networks.

In the next chapter, networks and their influences on internationalization will be analyzed.

2.2 Social Networks

Networks are great tools for entrepreneurs, and are subject of wide research in order to establish a prevailing theoretical framework for International Entrepreneurship (Bell, 1995; Oviatt and McDougall, 1994; Coviello and Munro, 1995,1997; Zhou, Wu and Luo, 2007; Greve and Salaff, 2003).

The first studies emphasizing the importance of social networks within the internationalization process appeared in the end of the XX century (Coviello and Munro, 1995, 1997). These authors argue that the decisions of foreign market entry as well as the modes of entry selected by INVs are often a consequence of the companies or individuals own network relationships.

Newly founded companies have, among others, two characteristics: liability of newness (Stinchcombe, 1965) and liability of smallness (Aldrich and Auster, 1986), these terms refer to the restricted access companies have to resources, and are believed to be the main reason why players use social networks as an important tool to overcome these disadvantages.

A social network can be interpreted as the sum of individuals linked by social relationships inside a certain population (Burt, 1992). Two streams have derived from the study of social networks, one emphasizes on the results for entrepreneurs and companies (Aldrich, 1999; Sorenson and Audia, 2000), and the other examines how entrepreneurial practices and results impact on network progress over time (Coviello, 2006).

In a recognizable contradiction towards traditional internationalization theories, McDougall, Shane and Oviatt (1994) explained that social networks are of vital importance for entrepreneurs/founders of INV since they enable the identification of international opportunities. These networks seem to have more importance in selection of foreign market countries than the physic distance between the domestic country and foreign market (Andreosso-O'Callaghan and Lenihan, 2008).

Other authors, mainly through case studies methods, argue that entrepreneurs, through their social ties with others, learn most of the international business opportunities (Crick and Spence, 2005; Ellis and Pecotich, 2001; Sharma and Blomstermo, 2003).

Social networks aid entrepreneurs discover international opportunities (Oviatt and McDougall, 2005); establish trustworthiness (Ellis, 2011), form strategic alliances (Wong and Ellis, 2002), lower transaction costs (Rutashobya and Jaensson, 2004) and decrease risk (Sharma and Blomstermo, 2003).

Network relationships are considered to be an inseparable part of the internationalization process, applicable both for small, young companies and MNC's (Greve and Salaff, 2003).

Former network studies name players that perform roles in these networks as nodes, and the connections between them are called ties, a concept introduced by Granovetter (1973).

Tie strength is another important concept within the network ties, according to Granovetter (1973, p. 1361); tie strength "is a (probably linear) combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie".

These ties can be divided into two types: strong and weak (Aldrich, 1999). Strong ties comprise emotional investment, trustworthiness and belief, therefore creating a need to discuss differences in order to preserve the tie (Oviatt and McDougall, 2005). Weak ties are described as relationships with the stakeholders; these exist in much more number than strong ties, because they require much less commitment.

In IE literature it is clear there exists a conflict when addressing the importance of strong and weak ties (Rowley, Behrens and Krackhardt, 2000). Strong ties seem to be more valuable at the initial phase of companies, while weak ties become increasingly important as the company grows (Aldrich, Rosen and Woodward, 1987). On the other hand, Presutti et al. (2007) argues that weak ties are more important than strong ties while strengthening the process of knowledge possession and exploitation in an international new venture. As said before, this is a topic of study that remains confuse and unclear (Kiss and Danis, 2008).

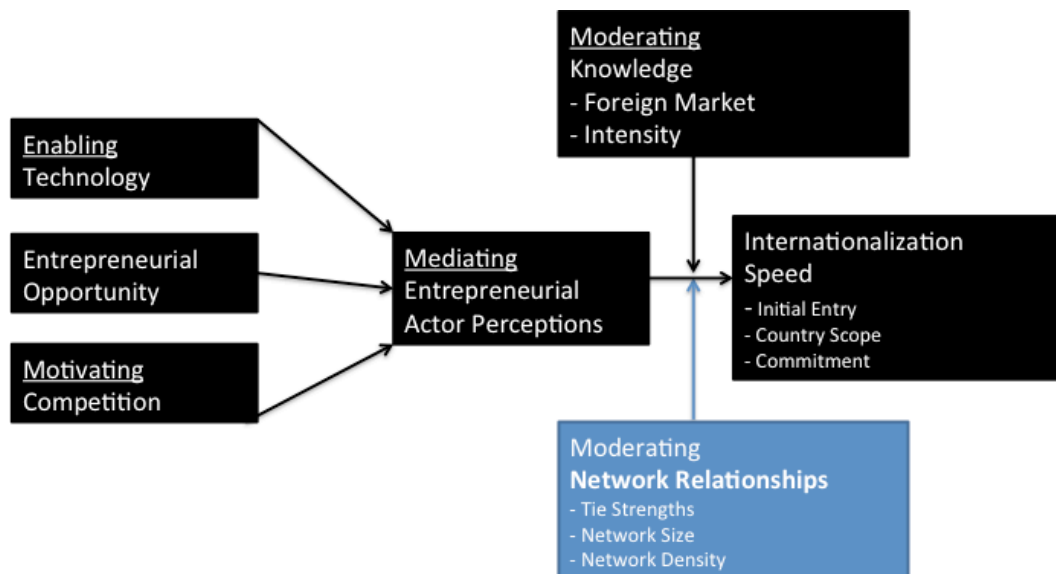
Following their model of forces influencing internationalization speed (Fig. 1), Oviatt and McDougall (2005) argue that there are three key aspects in networks that assist internationalization:

1. The strength of ties;

2. Dimension of the network;
3. Density of the network.

In their model (Figure 1), Oviatt and McDougall (2005) argue that entrepreneurs with an opportunity and with existing ties capable of indirectly link them to other players in overseas countries have the ability to participate in international business very rapidly. They also show us that the more weak ties entrepreneurs have, the greater their potential to enlarge their country scope and, therefore, to increase the rapidity of internationalization.

Figure 1: A Model of forces influencing internationalization speed



Font: Adapted from Oviatt and McDougall, 2005.

Another issue is network density; Oviatt and McDougall (2005) show us that sparse networks generate better new information than dense networks, because sparse networks connect unrelated actors while dense networks connect actors through superfluous ties.

The usage of social networks by entrepreneur's contrasts across countries and institutional environments; emerging countries like China or Russia typically possess low levels of institutional development and therefore tend to trust on social networks

much more than developed countries, such as U.S.A and Germany (Kiss and Danis, 2008).

In countries where institutions (e.g., legal and financial) are immature or fragile, networking is much more powerful and vastly used in every aspect of life (Yan and Manolova, 1998). In these countries, transformations at an institutional level create ambiguity and mistrust, mainly because new rules and details and other innovative aspects difficult interpretation and fully understanding (Bunce and Csandi, 1993).

Personal links to government officials are proved to be very useful due to the complex and ambiguous bureaucracy existent in countries with low institutional levels (Rona-Tas, 1994). Hence, interpersonal ties can be crucial while improving companies' performance (Peng, 2003), and also affect the processes of new ventures internationalization (Kiss and Danis, 2008). The country's institutional stage of development may affect profoundly the links between social relationships and new venture internationalization.

Access to information and resources quickly and efficiently can be provided by the use of informal social networks (e.g., *guanxi* in China, *blat* in Russia or *kankei* in Japan), and the focus of this work is to provide an useful insight into *guanxi* and the importance of it for international new ventures entering the Chinese market.

In their work with small and medium sized enterprises from China that were internationally oriented, Zhou et al (2007) discovered that several benefits related to information, such as awareness of foreign business opportunities, guidance and experimental learning and recommendation trust, were obtained essentially through social networks.

In the next chapter an analysis of *guanxi* network is presented, which is widely embedded in the world's largest developing country, China.

2.3 Guanxi

Guanxi is a complex concept, embedded in Chinese culture and society for thousands of years, and it has no English translation (Fan, 2002). In Chinese language, *guanxi* is composed by two characters, 关 (*guan*) is the first, as a noun it means " a pass" or "barrier" and as a verb it means, "to close". The second character is 系 (*xi*), which as a

verb means to “tie up” or “link”, and as a noun means “system”. In Chinese language *guanxi* has several meanings. According to Bian (1994) it can be one of the three concepts:

- Connection between people who share the same group or who are linked to a mutual person;
- Petite direct contact link with a person;
- Common contact between people partaking real connections.

In wide literature covering *guanxi* one can find several definitions, Jacobs (1979) defines it as “particularistic ties”, while Gold (1985) describes it as “a power relationship as one’s control over a valued good or access to it gives power over others”. The most consensual definition of *guanxi* (in the business perspective) is as a unique kind of particularistic ties that links the borderline spanners of exchange partners through social events, mutual responsibilities and favor exchanges (Peng and Luo, 2000; Davies et al, 1995).

Guanxi is essentially a singular connection between two individuals, but how close these connections are depends on the *guanxi* base (nature of the relationship). According to Fan (2002) a *guanxi* base can be categorized into the following three categories:

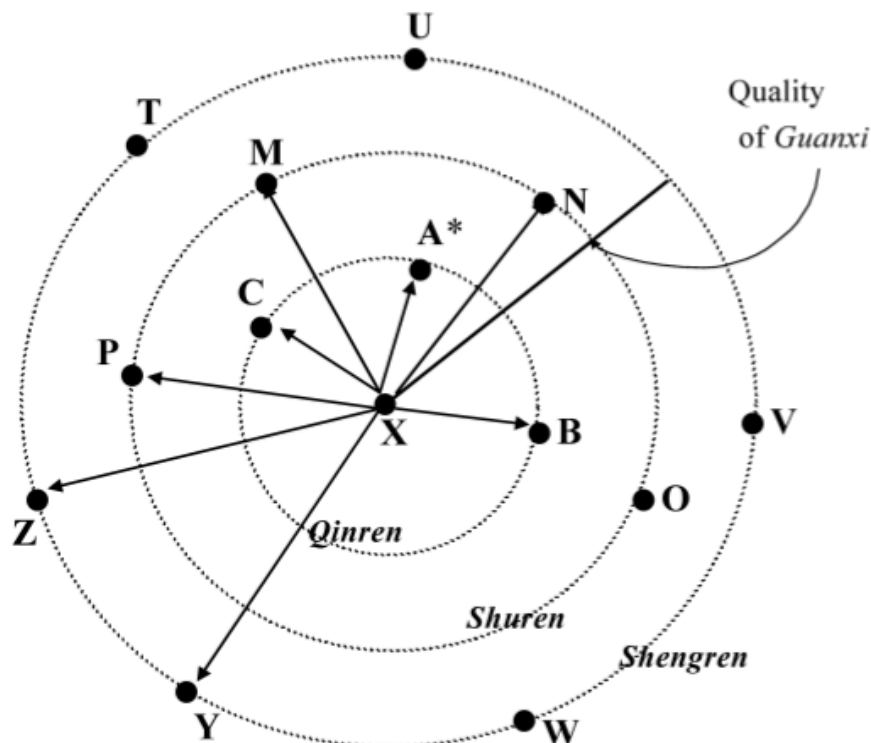
1. Birth or blood connection
 - Family
 - Kinships
2. Relationship by Nature
 - Classmate
 - Co-worker
 - Same region of birth
 - Neighbors
 - Same profession
3. Acquired Relationship
 - Friend
 - To know the same person
 - Acquaintance
 - Sworn brotherhood

Chen and Chen (2004) exposed to us the categories that Chinese people use when referring to the *guanxi* level of relationships:

- **Shengren:** People you don't know or with whom you have a yet to discover tie;
- **Shuren:** People you have met or been introduced to by a third party or by a tie that has been identified and known to both;
- **Qinren:** People with whom you have a bond by blood or connected by immediate and distant family or marriage.

In Fig. 2 Fu, Tsui and Dess (2006) use a circle to illustrate the levels of *guanxi*, the radius represents the distance of a given *guanxi* in which the smaller the distance the better the *guanxi*, X is the focal person, and the other letters are persons that have a certain *guanxi* with X.

Figure 2: Person X's *guanxi* net (Adaptation of Chen/Chen 2004)



* The alphabets (except X) represent individual persons; X represents the focal person. When there is a line between the alphabet and X, it indicates that the two are connected by *guanxi*; the distance indicates the quality of the *guanxi* in Chen and Chen's original figure, but here we replaced the three circles with the three types of *guanxi*. As the distance changes, the person moves from *Shengren* to *Shuren* or *Qinren*, or vice versa. Please refer to Table 1 for examples of the dynamics of *guanxi*.

Chinese *guanxi* and networks in the West are not the same (Chen, Huang and Sternquist, 2011); there are at least three main differences. First, *guanxi* focuses on exchange of favors in an uneven way, that is, one person gives a favor and the other person must return the favor, and even increase the importance of the favor given (Yi and Ellis, 2000). Second, personal networking in the West it's not so materialistic as *guanxi*, in China the cultivation of long term relationships implies gift-giving and paying for dinner out (Yang, 1994). Third, *guanxi* is characteristically utilitarian, because it focuses mainly on favors exchange and not emotional feelings, on opposite to what happens in the West (Luo, 1997).

Only in the last decade *guanxi* start to be perceived as a beneficial and cultural practice, but even nowadays many westerners still see *guanxi* as disguised corruption (Liang-Hung and Yu-Ling, 2010). According to Ambler (1994, p. 75): "*Guanxi* is no more equivalent to corruption than social drinking is to drunkenness. Drink needs to be presented before it can be abused but abuse and moderate consumption are markedly different".

Yang (1994) argues there are three clear distinctions between *guanxi* and corruption (bribery):

- Gain and loss scheming dictates the act of bribery, but performances a much weaker role in *guanxi*.
- Bribery serves an instantaneous and exact drive, while *guanxi* has a long term and dispersed form.
- Emotional feelings and affections are a natural part of *guanxi*, and not of bribery.

Lovett, Lee and Kali (1999) argue that Chinese cultures are based on Confucianism, and therefore work under different ethical principles. Confucianism transformed Chinese relationships into a particularistic manner, meaning Chinese treat human beings in the perspective of social relations and do not consider themselves as subject to a universal set of social rules. Hence, Chinese modern societies focuses on relationships, where allegiances and responsibilities to folks make the system work properly, and it is wrong to assume the western "way" is the right "way".

Western commercial legal system is a reflection of our own ethical perspectives; it is based on the discrete-transaction paradigm (Williamson, 1979), which has two main characteristics: first, who are the transacting entities is redundant, and second, the contract is judiciously written with as many formal terms as possible.

In contrast, *guanxi* focuses on the transacting entities, instead of the transaction itself. The implicit logic is that relationships are more important than the exchanges that might occur between them, and therefore, there is a constant need to maintain and “feed” the relationship. Any issues that might arise within the transaction will be solved in order to preserve the relationship (Ambler, 1994).

Guanxi is regarded as an important issue for foreigners doing business on China, and numerous studies have scrutinized the highly intricacy of relationships within joint ventures, government and cultural environment (Aiello, 1991; Hoon-Halbauer, 1999).

Buckley, Clegg and Tan (2006) advocated that *guanxi* with local players and government is a crucial aspect in order to foreign companies establish in China. Foreign companies can and should use *guanxi* for lobbying local and central governments. Buckley et al (2006) also argues that trust is the core of *guanxi*, and therefore the relationship construction and cultural awareness management is necessary.

Fan (2002) considers *guanxi* an important tool for international companies doing business in China at the initial phases, such as introduction, negotiation and set-up of operation. Once the business is consolidated, other elements beside *guanxi* will take up their prominence. This is because *guanxi* relationships will be altered and/or weakened while foreign companies move down the learning curve in the Chinese market.

2.4 The Chinese Miracle

People’s Republic of China was founded in 1949, leaving behind three decades of civil war and social turbulence, which left the country in wrecks. Agricultural and industrial sectors were in precarious conditions; considerably bellow their peaks in the 1930’s, and the enormous money printing used for supporting the war effort caused hyperinflation (Tisdell, 2008).

However, by 1952 the economy stabilized due to preventive fiscal and monetary rules, the transport system normalized and industrial production had been restored. During the twenty-five years after the Chinese Revolution and before the economic reforms, the country's output growth averaged around 4% a year, mainly due to the gigantic upsurge of labor and capital engaged, but the total factor productivity was still very low (Chow, 1985).

These were consequences of the centralization of the economy, which is a premise of the communist ideology attached to the new Chinese regime led by Mao Zedong or Mao Tse-tung.

Two mammoths' economic breakdowns happened in this period, the Great Leap Forward and the Cultural Revolution. The Great Leap Forward was an economic and social crusade, which aimed using China's extremely big population to swiftly transform the country from a rural economy into a modern communist society through the process of collectivization and industrialization. This campaign resulted in tragedy, ending with approximately 50 million lives and devastating economic recession (Riskin, 1987). The second economic disruption, the Cultural Revolution, was a consequence of The Great Leap Forward mainly because the country's leader, Mao, was criticized and disregarded at the Chinese Communist Party conferences, and he reacted by triggering the Cultural Revolution (Kraus, 1982). This phenomenon had the objective of enforcing communism in the country, by removing capitalist, traditional and cultural elements from Chinese society, which politically paralyzed and significantly destroyed part of the country's economic and social foundations (Kraus, 1982).

The causes for the upsurge of the economic reforms in the late 1970's were various (Myers, 1995):

- Discontentment due to the Cultural Revolution: this disruptive event sponsored by Mao was extremely unpopular and the Chinese government had to take measures in order to deal with the situation. Mao died in 1976, which followed by the power seizure by the Gang of Four, who was rapidly eliminated afterwards. Deng Xiaoping, the great reformer ascended to power with the support of the Communist Party.
- Economy decentralization: economic planners realized that a planned system was not viable.

- Asian Tigers: the emerging economies in neighboring countries, such as Hong Kong, Japan, South Korea and Singapore that were market-oriented reinforced the point that market economy is more competent.
- Chinese ambitions: Because of all the above reasons, Chinese people looked for a market-oriented economy. Due to the economic penalties of economic planning through decades, Chinese people suffered shortage, limited variety and lack of quality of food and other consumer goods.

In 1978, the economic reform of China, which would shape the world, begun. The main protagonist was Deng Xiaoping, who needed great perseverance and political skills to get his reforms past the communist party disciplinarians in the Chinese Politburo (Yang and Zhang, 2000). A meticulous and incremental approach was done concerning the reforms, the simplest aspects of the reform were executed and their accomplishment helped build the sustenance for the reform process (Chow, 1985).

2.4.1 Period 1978-1984

Experimentation with the reform started in the agriculture sector; prior to 1979, agricultural production entailed in communes reproducing the centralized economy inspired by the Soviet experience, and it was greatly inefficient (Tisdell, 2009).

According to Tisdell (2008), the government, in order to raise agricultural productivity introduced several measures:

- Scope of private farm strategies were increased;
- Broadening of production was invigorated;
- Rural free markets were formed;
- Household Responsibility System (HRS) was created.

These changes enlarged agricultural production and increased the living conditions of hundreds of millions of people and stimulated rural industry. Deng Xiaoping also approved special policies bestowed to Special Economic Zones (SZE's) in order to appeal foreign investment, technology, encourage exports and to create experimentations for future economic reforms (Qian and Wu, 2008).

2.4.2 Period 1985-1988

Due to efforts made in the previous period, the economy had a good response and the national demand and production were spurred. In this period, China turned its head to reform urban industries, which were controlled by big, inefficient state-owned companies.

To appeal more foreign investment, 14 key cities were opened to foreign firms, enhancing the economy to results never seen. Although the economy was thriving, increasing social and fiscal problems were visible (Tisdell, 2009).

2.4.3 Period 1989-1992

The economy was growing steadily, but inflation grasped two digits by 1988 and social inequalities multiplied. New reforms aiming prices were politically delayed (Chow, 2002). Foreign investment continued pouring into the country adding even more to inflation and urban apprehension.

The mediocre social conditions and their consequent disenchantment within the population led to the Tiananmen Square protests in 1989. These protests were violently crushed by the government, causing a massacre that killed thousands of protesters (Tisdell, 2003).

Robust actions to calm the economy took place after the protests, with the intent to ease undesirable social externalities. This economic cooling led to the danger of economic crisis, and the government enforced monetary and fiscal impetus. By 1991, prices became stable and the prices of some goods were even opened. By the end of this period, the economy showed signs of good recovery (Yang and Zhan, 2000).

2.4.4 Period 1993-2005

This period is distinct by its strong return to economic reforms and opening. Chinese socialism was almost attuned with the western understanding of a market system oriented economy. Deng Xiaoping died in 1997, but his views and reforms continued under the hand of his appointed successors, Jiang Zemin and Zhu Rong Ji, who were fervent followers of Deng's beliefs. Measures were taken to enhance a market oriented legal and supervisory structure (Qian and Wu, 2008).

Between 1997 and 1998, large denationalizations occurred, in which many state enterprises were sold to private investors. By 2004, approximately 50% of the state owned enterprises were eradicated. During this same period, tariffs and trade barriers were dramatically reduced and the banking system was partially reformed. Inflation was reduced, and in 2001, after 15 years of negotiations China joined the World Trade Organization (Tisdell, 2008).

Finally, by 2005 the private sector for the first time exceeded 50% of the Gross Domestic Product, and has further expanded (Tisdell, 2008).

2.4.5 Period 2005-Present

As of today, China is the world's second major economy in the world by nominal Gross Domestic Product (GDP) and by Purchasing Power Parity (PPP), it is also the world's rapidest growing economy in modern History, with grow rates averaging 10% over the past 35 years. If we shoulder that the 2013 growth rates for both China and the USA (8% and 2% respectively) are maintained, China will become the world's biggest economy by 2030.

Economic evolution has led to a substantial upsurge in income per capita, and a remarkable decrease in poverty levels has given huge numbers of persons the chance to escape extreme poverty. However, matched to the OECD average, China's GDP per capita is still small. China is now a major target for foreign direct investment (FDI). Inward FDI expanded very swiftly in the 1990s and improved again after the conclusion of the Asian monetary crisis. Nowadays, China's inward FDI supply comparative to GDP is significantly superior to that of Korea and principally of Japan and is analogous to that of Canada and the United Kingdom.

The country has transformed itself in an interchange nation of worldwide standing and it is now, the world's biggest exporter, surpassing Germany and the USA.

3 Methodology

This study's main research question is "is *guanxi* important for INVs doing business in China?" To successfully recognize and comprehend thoroughly how *guanxi* impacts, this research utilizes a multi-case study approach, following the methodology of data collection by Eisenhardt (1989) and Yin (1989).

The case method is apt for this study for the subsequent motives: first, the method is predominantly suitable for examining phenomena in a real situation (Yin, 2003); second, the subject matter (*guanxi*) is an intricate cultural one (Stuart, McCutcheon, Handfield and McLachlin. 2002) and third, the research deals basically with a "how" and "why" interrogation (Yin, 2003).

The formal case-study approach was considered unsuitable for this study because the research objective is not to precisely outline firms in depth, but somewhat to disclose (Eisenhardt, 1989), explore and comprehend a variety of views amid a population whose members (entrepreneurs) face an analogous challenge (internationalization) in a country (China) that has specific cultural ways of doing business (*guanxi*).

In brief, the added value of this methodology case study lies on the fact that, and quoting Eysenck (1976, p. 9), "sometimes we simply have to keep our eyes open and look carefully at individual cases – not in the hope of proving anything, but rather in the hope of learning something".

3.1 Case Selection

According to Eisenhardt (1989) the minimum number of cases in this type of research is 4 (the same number of cases this study displays); the reason is that it will guarantee adequate facts without creating overcrowded data throughout the analysis. Qualitative research consents the collection of particular cases to tackle research questions.

Specimen decisions were made on academic rather than statistical grounds, and simplifications from one case to the next were made on the foundation of a match with the core theory (Eisenhardt, 1989; Yin, 1989).

All the firms chosen for this study comply with Oviatt and McDougall's (1994) definition of International New Ventures: "a business organization that, from inception, seeks to

derive significant competitive advantage from the use of resources and the sale of outputs to multiple countries". Also, the group of cases selected for this research is multi-industry, and the firms present different business scopes (wine, architecture, amino acids and tourism).

Given the craving to study *guanxi* and its use by foreign entrepreneurs in China, the author adopted his own *guanxi* in order to identify and reach contributors for inclusion in the study. Within the author's *guanxi*, case selection was not random, the author looked for INVs already established or doing business in China from different country origins. One might argue about issues of trustworthiness and legitimacy associated with sampling based on personal networks (Yin, 1989).

3.2 Data Collection and Analysis

Given the need for this kind of comprehensive exploratory study, individual semi-structured interview was chosen as the most suitable data collection technique.

An interview procedure was designed consisting in 14 open questions with associated examinations. Questions were designed to answer the question of this study: "is *guanxi* important for INVs doing business in China?"

Previous collateral questions, beside the main interview protocol, were made in order to have a description of the company, the actors, and chronological events since the startup of the company (Appendix I).

For each case, I conducted one on-site interview and another one by Skype with the entrepreneurs. Interviews lasted 2 hours on average, and they were recorded with the permission of the respondents. Two of the interviews were made in Portuguese and the remaining two were made in English, and the tone was intentionally casual in style. The author of this study conducted all interviews. These features endorsed thorough dialogue and evaded any likely problems that might have arisen as a result of the formal tone of conversation. Data collection took place in Beijing, the capital of the People's Republic of China in May 2013.

At the time of the interviews, the entrepreneurs who contributed for the study were involved in international markets. While writing up the case details contacts to the entrepreneurs were made to clarify details.

4 Companies Profile

In this brief profile characterization of the four case studies involved in this study, I provide information about the business scope, formation, entrepreneur background and current performance of the companies. I also made a contextualization of the work performed in China and the networks/*guanxi* developed in order to enter the market.

4.1 Quinta da Bichinha

Quinta da Bichinha was created in 2004 in Portugal, with the sole purpose of hosting events such as weddings and corporate events in the greater Lisbon area, but around 2005 it started the production and commercialization of wine. It never had the intent to internationalize or even diversify its business operations.

Quinta da Bichinha is a family business, and Diogo Tavares (the author of this study), son of the founders, very soon began to become progressively involved in the company's business.

While doing an internship with the European Union Chamber of Commerce in China in early 2011, part of the 15th edition of the Portuguese governmental program InovContacto, Diogo started to develop a broad network of contacts with Chinese business people interested in importing and trading Portuguese quality products, which culminated with an exclusivity agreement with Chinese company Century Mission. The exclusivity agreement established that Quinta da Bichinha would sell 7 Portuguese wine brands exclusively to Century Mission. These brands were singlehandedly advanced by Quinta da Bichinha based on market trends specified by a preliminary extensive research on the wine market in China. So far, Quinta da Bichinha sold approximately 200,000 bottles of Portuguese red, white and rosé wine to China alone.

Quinta da Bichinha internationalization to China is well described in a master thesis written by Sílvia de Sousa in 2012 with the title "Quinta Da Bichinha – A case of a Portuguese "Born Global" in the Wine Industry" (Sousa, 2012).

Company Characterization

Name	Quinta da Bichinha
Business Scope	Wine
Foundation year	2004
First year of Internationalization	2011

Entrepreneur Identification

Name	Diogo Tavares
Position	Vice President
Date of the interview	21/05/2013
Location of the Interview	Beijing

4.2 PRO Architects

Pedro Roldão is the founder and C.E.O of PRO Architects; he is an architect with several years of international professional background. He went to London to enroll in a Civil Engineering course after finishing his architecture degree in Lisbon (Pedro is a Portuguese citizen), in 2006. After finishing his studies he got a job proposition to work in Paris as an architect, the company name is Batuque (the company is based in Cape Verde and its C.E.O is of French nationality). The job description was to lead a team of architects to start a new project, a Hilton hotel in Sal Island in Cape Verde. The project pre-development lasted for 2 years, from 2008 to 2010, when lack of financing halted the entire project.

By the end of 2010 Pedro moved to China to work for a Chinese company named TDP (Australian company bought by Chinese nationals), Pedro's job in the company was to lead a team of approximately 20 architects (all Chinese) working for diverse projects, such as hotels, shopping malls and residential compounds.

Meanwhile, in 2012, a new injection of capital in Batuque allowed the continuation of the Hilton hotel project, and Pedro was invited to be project leader of all the areas concerning the hotel's construction.

Pedro accepted, but with some conditions attached:

- Creation of a new company (PRO Architects) that would be in charge of all the building aspects of the hotel.
- Partnership between PRO Architects, TDP and Batuque.

TDP would be associated with the project ensuring PRO Architects with human and physical resources. This joint venture was only possible due to the *guanxi* Pedro had developed for two years within the Chinese company TDP.

Company Characterization

Name	PRO Architects
Business Scope	Architecture
Foundation year	2012
First year of Internationalization	2012

Entrepreneur Identification

Name	Pedro Roldão
Position	General Manager
Date of the interview	22/05/2013
Location of the Interview	Beijing

4.3 Djamaalov Commodities

Aziz Djamaalov is from Tashkent in Uzbekistan; since young he had a fascination for China, and after graduating in management, in 2009, at the Tashkent University he travelled to Beijing, China in order to find a job. After 3 months searching Aziz got hired for work as a sea freight manager in a Russian logistics company, USC. Due to the fact Uzbekistan is a former Soviet satellite country, Russian language was compulsory at school, and Aziz, beside his native language (Uzbek), could speak fluently Russian and consequently work in this Russian logistics company where job requirements included the aptitude to speak Russian and Chinese.

USC is one of the major sea freight companies working in the Russia-China route, and as so, a large quantity and diversity of products are maneuvered by USC. Aziz's job was to organize all the bureaucratic details of the sea transportation of goods from Russia to China and vice-versa, and he had to be in contact with both supplier and seller.

Due to the multiplicity of goods transported, Aziz had privileged access to producers and buyers and therefore constructed a complex and very useful network. Aziz wanted to quit his job and start his own business, so, in 2012, he created Djamaalov Commodities, with the main objective to buy commodities in China and sell them in Russia. Some months after starting this venture he realized that this was a very good business opportunity, due to the fact there was only one distributor of that product in Russia and the margins were very tempting, the product is Lysine which is an amino acid that is added to animal feed. He went to MeiHua factory in Inner Mongolia, which is the biggest producer of Lysine in the world, and built *guanxi* with the company's responsible. After some months the C.E.O of MeiHua agreed in conceding Aziz an exclusivity agreement to sell Lysine in Russia. As of today, Aziz is one of the biggest importers of Lysine in Russia.

Company Characterization

Name	Djamalov Commodities
Business Scope	Amino Acids
Foundation year	2012
First year of Internationalization	2012

Entrepreneur Identification

Name	Aziz Djamalov
Position	General Manager
Date of the interview	25/05/2013
Location of the Interview	Beijing

4.4 Mali Lopéz

Mali Lopéz is a company specialized in tourist guide and translation services founded by Maria Lopéz, a Spaniard from Toledo. Maria graduated Tourism in Madrid, and completed a Master degree in Chinese Culture and Language. Soon after she finished her Master dissertation she went to Shanghai to deep further her skills in Chinese Language. Maria went to China because of her interest in the Chinese language and culture and also because youth unemployment in her home country, Spain, was roaring.

In 2010 the Spanish Embassy in China hired Maria for an internship in the commercial office, where she spent one year long. While at this job, Maria built a fruitful network of connections in Beijing. After leaving the Embassy, Maria did some freelance jobs where it included tour guiding for some Spanish officials, jobs commissioned by the Spanish Embassy.

It was in 2012 that Maria decided to create her own company, Mali Lopéz, registered in Hong Kong where fiscal legislation is much more appealing for tourism companies

working in mainland China. She managed to get the registration information due to the *guanxi* she had built with one Chinese person while working at the Spanish Embassy. Panamanians, Ecuadorians and Chinese were hired; Maria recruited her employees through her *guanxi*/network connections, which were vast by then.

The company business operations are seasonal, from April to November Mali Lopéz concentrates mainly on tourist guiding, and from December to March the company focuses on translation services for Spanish businessmen visiting China.

Company Characterization

Name	Mali Lopéz
Business Scope	Tourism Tours
Foundation year	2012
First year of Internationalization	2012

Entrepreneur Identification

Name	Maria Lopéz
Position	General Manager
Date of the interview	24/05/2013
Location of the Interview	Beijing

5 Case Findings and Discussion

As said before, INVs usually lack resources to support their internationalization (Aldrich and Auster, 1986); hence, social collaboration, which takes place in the social relationships between folks, can be seen as a solution for resource streams, especially information exchange. Social relationships can be valuable in getting access to resources, which are crucial in all phases of internationalization.

5.1 Previous international background and company formation

To begin with, all entrepreneurs of the four case companies had international professional background, specifically in China. Pedro (PRO Architects) started working in China as senior architect at TDP; Diogo (Quinta da Bichinha) as an assistant at the European Union Chamber of Commerce in China; Aziz (Djamalov Commodities) worked at the USC Company based in Beijing and Maria (Mali Lopéz) worked at the Spanish Embassy in China as an intern. They all stated that the *guanxi* built while working at their previous jobs in China was crucial for the formation of their companies. Pedro indicated that if it weren't for the *guanxi* he had built with the CEO of the Chinese company he was working with

"It would be impossible for him [CEO of the Chinese company] to trust me moving forward this joint venture", Pedro Roldão, 22/05/2013.

Diogo, while working at the European Union Chamber of Commerce in China attended seminars and conferences organized by the institution which put him in contact with Chinese businessmen interested in developing international transactions. Diogo detailed that it was in one of those conferences where he had the first contact with his key distributor in China.

While working at USC, Aziz built an intricate *guanxi* with the Chinese producer of amino acids (MeiHua) which was a client at the time of the logistics company where he was working at, and due to that fact he was able to start his own trading company selling MeiHua products to Russia.

In the case of Mali Lopéz, Maria stated:

“Mali Lopéz would have never been born if it wasn’t for the guanxi I got in the Spanish Embassy, it putted me in contact with a lot of Chinese people that spoke Spanish and allowed me to hire some of them for working at my own company”, Maria Lopéz, 24/05/2013.

The former business relationships of all entrepreneurs dictated not only their initial foreign market choice, but more important, it had the utmost influence in the choice of their business venture.

Finding 1: Guanxi built by the entrepreneurs while on their previous job experiences in China was essential for the creation of the companies.

5.2 Guanxi ethics

They all agree that *guanxi* is vital, but opinion disagreements towards the *guanxi* ethics are prevalent.

Only in the last decade *guanxi* start to be perceived as a constructive and cultural practice, but even nowadays many westerners still grasp *guanxi* as disguised corruption (Liang-Hung and Yu-Ling, 2010). Half of the interviewed entrepreneurs appreciate *guanxi* as ethically reprehensible, mainly due to the apparent promiscuity between Government and private companies. Maria says that albeit *guanxi* is very useful while doing business in China it certainly hurts the country development declaring:

“Guanxi is an archaic way of getting things done, and it certainly attracts a lot of corruption to it”, Maria Lopéz, 24/05/2013.

Pedro has the same opinion as Maria, believing that when China’s economy will start to halt expressively, the heavy reliance of *guanxi* in the Chinese society will drag down the economy even harder. Pedro also states,

“Because companies and individuals rely on their guanxi in detriment of efficiency or merit, there will surge complex structural problems in China”, Pedro Roldão, 22/05/2013.

Diogo and Aziz have dissimilar opinions on this subject, they fiercely argued that *guanxi* is not a novelty; it is in fact thousands of years old and therefore passed the test

of time. Both believe *guanxi* is a unique and remarkable way of doing business, and both made declarations that resemble the comments made by Ambler (1994), in which he makes an analogy between *guanxi* and social drinking, stating that *guanxi* is no more equal to social drinking than corruption is to drunkenness. Aziz says that the West has created its own social ways, much more formal and institutionalized, and that China has created a different path, not better or worse than the Western. Diogo argues that *guanxi* is not the problem, but the government is, due to its enormous weight in the Chinese economy.

Finding 2: It is not clear whether *guanxi* is ethically reprehensible or not, half of the entrepreneurs agree and the other half doesn't.

5.3 Relevance of *guanxi* in the firm operations

All entrepreneurs perceive *guanxi* extremely important as a business tool, Diogo declared that without *guanxi* you won't be successful while doing business in China and Pedro also agrees stating,

"If you have good guanxi, business will naturally occur", Pedro Roldão, DATA.

As explained in the beginning of this chapter, *guanxi* was vital in the formation of the four case study companies. Another important question that this study wants answered is if *guanxi* currently plays an important role in the four firms operations. All respondents answered positively and were very expressive and keen on showing examples of how important *guanxi* is for the continuous survival of their companies. For instance, the current project PRO Architects is developing (Hilton Hotel at Cape Verde) is closely involved with the Chinese company TDP, which is being essential for the architectural designing of the Hotel. This joint venture was only possible due to the *guanxi* Pedro established with TDP's administration. Pedro is also hoping for future projects in China, the country with the largest number of ongoing construction projects in the world, and he says *guanxi* plays a major factor when getting picked for new projects. The founder of the firm says:

*"PRO Architects present and future work in China is 100% reliant on guanxi",
Pedro Roldão, 22/05/2013*

In accordance with the literature review, which shows us that small companies need to heavily rely on their networks due to their lack of resources, Pedro declares that only through *guanxi* he will be able to compete with large, multinational companies that presently work in China.

Diogo explains that *guanxi* plays an important role in all Quinta da Bichinha's operations in China, from marketing to product distribution. He gave the example of how Quinta da Bichinha gets new distribution channels in which Diogo identifies new sub-distributors through his own *guanxi* network and afterwards builds, in a patient and gradual way, *guanxi* with those same new sub-distributors. Diogo explained there is no other way, because his product is not known and his company is too small, and therefore it is imperial to develop trust and affection with these sub-distributors. There are several ways to build *guanxi*, but the one Diogo says is more fast and reliable is through gift exchanging and banquets, Diogo explained that the banquet event is an inescapable part of the *guanxi* construction, in which a lot of drinking and bonding will occur and a specific etiquette has to be followed.

Aziz gave many examples of how *guanxi* influences his firm's operations, but the most important for him was product pricing. MeiHua is the biggest producer of Lysine (amino acid for animal feed) in the world and their annual business volumes are worth billions of dollars, and they sell mainly to big commodity operators all over the world. Aziz is a very small player, accounting for less than 0.01% of MeiHua sales; nevertheless his *guanxi* provided him the same pricing privileges of the biggest clients of MeiHua. Aziz explained he maintains a very big proximity with MeiHua's Administration; he built his *guanxi* prudently and very good-naturedly. As explained before, Aziz worked for a logistics company that provided services for MeiHua, and he built a moderate relationship with MeiHua sales team. It was only after Aziz went on vacations to Inner Mongolia where MeiHua has its main factory that valuable *guanxi* took place; in one of his conversations with a MeiHua salesperson he revealed he was going to spend vacations in Hohhot (biggest city in Inner Mongolia) and was invited to visit the factory, which he did. After visiting the factory he encountered one of MeiHua directors, which invited him for dinner, and then "it was like a snowball". Aziz states that by the end of the trip "I had bonded in such a positive way with all of them that I started to think whether I should create my own company". After several months, Aziz did in fact opened his own company and started to buy Lysine at very favorable prices which allowed him to resell them in Russia rather competitively.

Maria, similarly to the other entrepreneurs declared that *guanxi* is a vital part of current operations in which Mali Lopéz is involved. Maria explained that in order for her to recruit reliable and qualified employees she has to use all the potential of her *guanxi*:

“It is extremely difficult to find someone who speaks Chinese and Spanish and at the same time is trustworthy and proficient”, Maria Lopéz, 24/05/2013

In order to be financially sustainable the company needs to hire Chinese personnel and not foreign, simply because it is cheaper workforce, and therefore, competitive.

Another important aspect in Mali Lopéz business is the subcontracting of companies that provide rent-a-car services with driver included. Even in this, apparently, small detail of the business, Maria has to pertain her *guanxi*,

“It is very important that the driver that takes the tourists doesn’t stop in shops or restaurants where he will get commission, this is highly ineffective and amateurish, so I have to build guanxi with these companies in order to prevent these situations to happen”, Maria Lopéz, 24/05/2013

Finding 3: Guanxi is of crucial importance for the daily companies operations doing business in China.

6 Conclusions

The cross-case outcomes commonly support the understanding that entrepreneurs usually learn of foreign opportunities through their existing networks (Crick and Spence, 2005; Ellis and Pecotich, 2001; Sharma and Blomstermo, 2003). All four case studies described exposed that prior *guanxi* was vital while swaying the perception of the entrepreneurial prospect abroad and therefore the formation of the businesses. According to the entrepreneurs' testimonial, China (a foreign market) was never chosen on the foundation of formal skimming or market research. When threatened with the ambiguity involved while entering new markets, these decision makers characteristically mitigated their risks by relying on their own *guanxi*/networks (Buckley et al, 2006).

At creation, the INVs obtained benefits from the individual *guanxi* capital owned by the entrepreneurs (Fan, 2002). It was this social capital in the form of *guanxi* that allowed entrepreneurs to access resources and resources sources, such as customers, suppliers, strategic employees or mentors. Based on the case evidence, the creation of the four businesses relied profoundly on the prior *guanxi* of their founders. Additionally, evidence implies that INVs emphasize utilizing existing ties instead of searching for new ones.

It was not possible to assess whether *guanxi* is ethically reprehensible, due to the dissimilarity of opinions among the interviewees. According to Yang (1994) *guanxi* can't be perceived as corruption due to three main reasons: corruption schemes imply the act of bribery, which takes a weak role in *guanxi*; bribery serves as an instantaneous and exact drive while *guanxi* is a long term and dispersed form and finally emotional feelings are a natural part of *guanxi*, and not of bribery. Other authors such as Ambler (1994), Lovett, Lee and Kali (1999) or Luo (1997) argue *guanxi* is a cultural characteristic of the Chinese nation, embedded in the Chinese mindset for thousands of years and therefore working under different ethical principles than the West. Liang-Hung and Yu-Ling (2010) argue *guanxi* is still widely regarded as corruption in the West. Half of the interviewees argue corruption is not ethically reprehensible arguing it is a specific and characteristic way of living, and the other half considers *guanxi* to be harmful to the economy, contributing to the already corrupted China.

Several authors argue that *guanxi* is critical for foreign companies that want or are currently doing business in China (Buckley et al., 2006; Aiello, 1991). Fan (2002) considers *guanxi* an important tool for international companies doing business in China at the initial phases, such as introduction, negotiation and set-up of operation and once the business is strengthened; other elements beside *guanxi* will take up their standing. It is most clear the weight *guanxi* has on the daily operations of the four companies. Various examples were given by the four entrepreneurs on how critical *guanxi* was, and still is in the daily operations of their companies performing in China. Their businesses accomplishment is highly dependent on their relationships continuance, because when in China it seems inescapable to grasp one of its main cultural features, *guanxi*. The small number of case companies limits this research. Surveys based on large sample investigation should be adopted to test the importance of *guanxi* for western companies doing business in China. Also, the author of this case study is also the entrepreneur of Quinta Da Bichinha, which can affect the impartiality of the analysis of this particular company case.

Hence, the answer for the main question of this dissertation: “is *guanxi* important for INVs doing business in China?” is clearly positive. Comprising all the information analyzed in this multi-case study, *guanxi* is in fact essential for INVs doing business in China.

For future research direction I suggest further analysis of the ethical implications of *guanxi*, it is not clear whether *guanxi* is a source of corruption or other illegal practices. Other suggestion is the further study of a possible downside of *guanxi* while business tool; it is not well defined whether *guanxi* has a pernicious side and which are the consequences of it.

In brief, I can only hope that the multi case study produced is as stimulating and pertinent for the reader as it was for me. Studying the importance of *guanxi* for foreign INVs doing business in China and the specific intricacies of this particular market allowed me to greatly enlarge my knowledge of business culture in this part of the world.

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8 Appendix

Interview Protocol

Collateral Questions:

1. Name of the company
2. Product
3. Year of foundation
4. Year of Internationalization
5. Name of the entrepreneur
6. Position in the company
7. Professional Background
8. Date of the interview

Main Questions:

1. When the company was born, what were your expectations regarding internationalization?
2. Why did you decided to engage in international markets?
3. Do you have any previous international experience?
4. Why did you choose China?
5. What made you choose China?
6. To what extent does your company cooperates with Chinese?
7. How did you choose your Chinese partner?
8. How did you enter China?
9. What is your opinion regarding *guanxi* as a business tool?
10. Was *guanxi* important in the formation of your business?
11. Do you think *guanxi* currently plays an important role in your firms operations?
12. How was the international development of the company so far?
13. The product is the same for all markets? Or is it adapted?
14. What are your current expectations regarding future internationalization?