

## **The impact of internationalisation on *Guanxi*: A social network approach**

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**ABSTRACT:**

Is *guanxi* withering with the internationalisation of the Chinese economy? With the growing exposure of Chinese businesses to market discipline and Western business practices, have traditional Chinese practices become impediments, and anachronisms to be abandoned?

In this review, we consider the grounds for expecting a pervasive Chinese business practice, *guanxi*, to change in the face of internationalisation. To do so, we examine *guanxi* as a multifaceted process, applied differently in different circumstances. We argue that, while *guanxi* has many differences from Western business networks, concepts from social network analysis, particularly the contrast between brokerage and closure, are useful in considering the dynamics of *guanxi* in an internationalising context. We use the review to develop a conceptual model of the expected impact of internationalisation on *guanxi*, finding internationalisation promotes dynamics of short-term brokerage at individual and organisational levels alongside a long-term tendency towards closure at an individual level.

**KEYWORDS:** *Guanxi* network, *Guanxi* dynamics, Chinese business international exposure, social network analysis, network brokerage, network closure

## 1. Introduction

*Guanxi*, a special personal relationship based on reciprocal interests and benefits, has long been pervasive in Chinese society (Yang, 1994; Bian, 1994) and has a strong impact on Chinese people's business behaviours (Lee & Dawes, 2005). Thus, Gao, Knight and Ballantyne (2012) argue that international engagement with Chinese business networks inevitably involves intercultural interaction at a personal level, comprising a barrier to one-fifth of the world's consumers because cultural differences are difficult to deal with (Pan & Tse, 2000). With the growing exposure of Chinese businesses to market discipline and Western business practices, will barriers be overcome? Have traditional Chinese practices become impediments, anachronisms to be abandoned or does international engagement reinforce traditional defences?

There are three broad theoretical streams concerning the significance level of *guanxi* in business. One stream suggests an increasing significance of *guanxi*, as Bian and Zhang (2014) present a generalised typology of the dynamism of *guanxi*, where the influence of *guanxi* relates to the extent of market competition and institutional uncertainty. Another stream suggests a decreasing significance of *guanxi*, as in Huang's (2008) investigation of *guanxi* networks and job searches in China's emerging labour market and Guthrie's (1999) study of Shanghai state enterprise managers; they find that with the continuous development of China's market economy, *guanxi* favouritism has been eliminated in economic decision-making. A third stream suggests that *guanxi* has never disappeared, but has merely transformed into new forms to adapt to a new environment (e.g. Chang, 2011).

Joining the debate on the significance of *guanxi*, we consider *guanxi* changes in the face of internationalisation. In this review, *guanxi* in business is discussed from an individual

level to a business level; it considers the effects of different conditions of international exposure on *guanxi* influences in business. As internationalisation involves the articulation of Chinese and foreign business networks, we examine the process in terms of changes to network structures. *Guanxi* is a social concept that affects Chinese business behaviours throughout Chinese business environments. We extend consideration of individual-level *guanxi* influence to organisational *guanxi* and develop a conceptual model of the expected impact of internationalisation on *guanxi* giving rise to different *guanxi* network features in varying international business environments. Our model contrasts with those predicting a more universalistic impact of internationalisation on *guanxi*. This paper contributes to the limited existing literature that analyses *guanxi* with social network concepts. It distinguishes separate network effects on the individual and organisational level and in their interaction.

## **2. Chinese Business Environment–Differences in International Exposure**

Guthrie (2002) suggests that *guanxi* is a product of an unripe legal and regulatory structure leaving government officials very influential in daily life and business activities (Boisot & Child, 1996). Reciprocation of favours substitutes for confidence in the implementation of stated laws and regulations. Thus, *guanxi* derives from distinct features of the Chinese political economy.

However, since the inauguration of economic reforms in 1978, the Chinese economy has changed greatly (Ianchovichina & Martin, 2001). Firstly, industrial ownership and property rights have shifted from the state to private organisations. Secondly, market transactions have become widespread, including growing integration with the world economy (Whitley, 1994). Yet, these developments have not been accompanied by

increased certainty, as expected by neoliberal theory, but rather increasing uncertainty (Deng & Moore, 2004). There are differing views on the consequences of economic reform on the relationship between the state and businesses. Nee (1989) argues that political power and political capital are increasingly displaced by entrepreneurship and human capital. By contrast, Haveman et al. (2017) suggest that ties between business and state improve companies' performance; the value of the tie depends on the trajectory of both economic and political institutions. Moreover, Lin (2011) claims that China has not moved towards a neo-liberal economic ideal type of market economy, but is instead moving towards 'centrally managed capitalism' in which economic activities are heavily embedded in all kinds of *guanxi* networks. The extent to which relationships with the state are important for business has implications for the pattern of *guanxi* dynamics.

Economic liberalisation in China has been, deliberately, highly uneven, led by the establishment of special economic zones (SEZs) in southern coastal provinces. SEZs were created to generate an 'outward-looking' economic structure and 'market-oriented economic system', with "the industrial sector was placed at the centre stage of SEZ economies." (Ge, 1999: 1269). Companies in these zones were encouraged to build connections to transfer technology or information from foreign investors and to expand the economy. However, different industry sectors developed at different rates; for example, during 1980-1995, primary industry sector growth only reached 7.3 percent, surpassed by the secondary industry sector at 49.2 percent, and the tertiary sector at 30.5 percent (Ge, 1999: 1272).

The rapid economic development of the southeast coastal zones attracted migrants from rural areas, leading to much greater urban expansion in southeast coastal locations than in the middle and western locations of China (Woetzel, Li & Cheng, 2012). The

expansion of business opportunities and engagement with international firms in the southeast coastal cities has generated a distinctive business environment to that in Midwest China. While various scholars note that the liberalisation of the Chinese economy has general implications for *guanxi* (e.g., Bian, 2018; Guthrie, 1998; Hanser, 2002), we argue that these implications will differ greatly between the Southeast and the Midwest, due to different levels of international exposure.

### **3. Guanxi Definitions**

In the Chinese language, *guanxi* (关系) can be seen as two words: *Guan* – 关, a noun meaning a barrier or a conjunctive point that connects separate entities; as a verb, it means to close. *Xi* – 系, a conjunctive word meaning in relation to, or having a bearing on.

There are different understandings of *guanxi*; different perspectives and approaches to *guanxi* result in varying definitions of the concept. *Guanxi* is widely defined in dyadic terms, as relationships between two individuals, which differs from the Western concept of social networked groups (Chen & Chen, 2004; Zhuang et al., 2010). Further, as summarised in Table 1, while *guanxi* is sometimes defined as a relationship, generally this is seen as a relationship that is also an investment.

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[Table 1 About Here](#)

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We follow this conception of *guanxi* as a relationship and an investment. We consider *guanxi* as interpersonal relationships based on reciprocal interests and benefits.

## 4. *Guanxi* from a Network Perspective

### 4.1 *Guanxi base and ties*

*Guanxi* as a relationship can be seen as a special connection between two individuals. However, the special nature of this relationship depends on the *guanxi* base. For example, family connections are the basis of the most trusted *guanxi* relationships.

*Guanxi* is rooted in the Confucian perspective that individuals exist with others; in a relation-oriented society, social positions demand specific duties and obligations, such as family relationships (husband and wife or father and son). In Confucianism, the five most important, cardinal, relationships (*wu lun*, 五伦) are ruler—subject, father—son, husband—wife, elder brother—younger brother, and friend—friend (Confucius, 1915). Confucianism identifies the five fundamental social relations based on a strong and orderly hierarchy, the original explanation of relationship construction. This can be seen as the original exposition of *guanxi* ties and it is very similar to Jacobs' (1982) typology of three types of *guanxi*: family ties (kinship), familiar persons (for example, former classmates and colleagues), and strangers (with or without common demographic attributes). Fan (2002) synthesises three categories of *guanxi* base: relationships by blood (family, kinships and in-laws); relationships by nature (classmates or alumni, colleague, teacher-student, neighbours); relationships acquired (acquaintance, knowing the same person, friend, Sworn brotherhood). From a different perspective, Hwang (1987) classifies *guanxi* into three categories by function: socio-affective category, social interactions involve primarily exchanges of feelings for the satisfaction of needs for love and belongingness; instrumental category, resource exchanges; and mixed category, exchanges of both feelings and material benefits

*Guanxi* ties are distinguished by their closeness, which affects interaction; for example, ties by blood can be normally trusted unconditionally and this great closeness normally leads to frequent communication. Aligned to the categories of *guanxi* base (Fan, 2002), Luo (2016) presents the concept of ‘*guanxi* circles’, layers in the ‘social atom’ around a person. In the centre of the circle are families; based on family ties; family members can help each other without return. In the outer circles, the members are long-term friends with favour exchanges and social acquaintances. From a network perspective, we consider the categories of *guanxi* base and types of ties are the base unit.

#### 4.2. *Guanxi ties in business*

Developing Luo's (2016) ‘*guanxi* circles’ and *guanxi* base categories (Fan, 2002; Hwang, 1987), Bian (2018) proposes that the nature and forms of *guanxi* influence are contingent upon whether *guanxi* is: 1) a tie of connectivity, the networks existing in a shared community (resources) where members have mutual recognition and communication; 2) a sentimental tie that helps people socially connected to each other, involving human affections, such as sympathy, care, trust, and love, which are altruistic, not reciprocal; 3) a sentiment-derived instrumental tie, where people help each other, with reciprocal implications and expectations (resources); 4) an instrumental-particular tie, where the primary elements are the norms of reciprocity, face, and favour, and these ties grow or decline in proportion to the extent of the market economy in China; 5) an obligational tie that facilitates power and money exchanges, which creates highly patterned behaviours. Different forms of *guanxi* are likely to be found in different types of business.

Considering Fan’s (2002) three categories of *guanxi* base in business, in business with family, a sentimental tie is likely to be found, which involves human affections, and

helping each other without reciprocation. In business with relationships by nature, a sentiment-derived instrumental tie is likely to be found, classmates helping each other in business. In business with acquired ties, an instrumental-particular tie is likely to be found, for example, favour exchanges between friends or connectivity ties in partnerships with other firms. We believe that the *guanxi* ties vary as a result of varying levels of international environments.

In terms of internationalisation, Gao et al. (2012) find a particular *guanxi* effect in Chinese-Western business relationships. As uncertainty increases with economic transitions, gatekeepers have become important in *guanxi* networks. Gao et al. (2012) find that interactions between *guanxi* insiders and *guanxi* outsiders can create a special facilitating relationship, a *guanxi* gateway tie: insiders and outsiders can meet and work together in this middle-cultural territory for the instrumental purpose of obtaining passage through the ‘gateway’. However, not all *guanxi* forms are suitable to act as a gateway tie, the quality of *guanxi* needs to be considered.

#### 4.3. *Ganqing* 感情—Quality of *guanxi*

According to Luo’s (2016) *guanxi* circles theory, the distance between the core and periphery can be used to measure the quality of *guanxi*. Similarly, in China, people use *ganqing* to measure the closeness of a relationship. This refers to an outcome of sharing and interaction through living, working, or studying together (Tsang, 1998). While two people may have a *guanxi* base, this does not mean they have *ganqing*. For example, two people may have worked for the same company, but at different times. To develop *ganqing*, a third party must introduce them to each other and invest time in creating closeness, this leads to the transmissibility of a *guanxi* tie.

#### 4.4. Guanxi tie dyads and transmissibility

Several scholars see the fundamental units in *guanxi* networks as dyadic (Fei, 1992; Chen & Chen, 2004; Huang & Wang, 2011). Fei (1992) proposes an ego-centred network of *guanxi*; the interconnection among the *guanxi* parties is not important as long as each person is connected to the ego. This places importance on dyadic ties in *guanxi* networks rather than any triadic ties from those among alters. That is, dyadic ties (*guanxi* ties) are essential to exploring Chinese business networks. However, if the alters want to connect, the ego can introduce alters to each other. This can be applied to develop *ganqing*. This shows that *guanxi* ties have transmissibility. Thus, we consider that *guanxi* dyadic ties can cluster in a network, the interaction of an ego's alters creates a network structure beyond the dyads.

#### 4.5. Trust and credibility in *guanxi* networks

Chang (2011) argues that in *guanxi* networks, people use *guanxi* strategies to access resources, build bridges among social relationships of power, and embed trust and reciprocity. In *guanxi* networks, relationship closeness affects trust. If people trust one person in a *guanxi* network, it means that the person has credibility in this network. At the same time, if people from another network want to do business with that person, their credibility is the key determinant underpinning trust. Therefore, trust and credibility are two important factors in *guanxi* that always interact with each other. The measure of credibility called *mianzi* (face), is used extensively in Chinese business networks.

*Mianzi* (face, 面子) is a key factor in developing and maintaining *guanxi* as a measure of credibility. On the one hand, *mianzi* can be seen as a public image (Redding & Ng, 1982). “*Mianzi* (face) is an intangible form of social currency and personal status, which is

affected by one's social position and material wealth." (Park & Luo, 2001: 457.) On the other hand, there exists a direct connection between *mianzi* and the size of the *guanxi* network: if an individual is in a larger *guanxi* network that has more powerful members, then this individual has more *mianzi*. Thus, we consider the extent of embedded trust, credibility and *mianzi* are different in different international environments.

## **5. A Social Network Approach—Guanxi as an Embedded Resource**

In this review, we consider *guanxi* as relationships and investments. In line with that, some researchers argue that *guanxi* is a form of social capital (Luo, 2007; Wong, 2000). It is associated with the Western social network concept; foreign investors need to understand social capital networks and *guanxi* to invest in China (Gao, Ballantyne & Knight, 2010). Furthermore, Huang and Wang (2011) argue that Westerners should develop *guanxi* to deal with Chinese business, which can help them impart value to their social networks.

### *5.1. Guanxi and social capital*

As with the definition of *guanxi*, there are many definitions of social capital. Siisiäinen (2003) distinguishes two central components in Bourdieu's (1980) extensive account: 1) Social capital as an individual's membership of a group or social network, the number of connections that the person can mobilise effectively; and 2) social capital as a quality created by all the relationships between group members. Social capital is a collective resource that enhances a dominating or privileged group (Siisiäinen, 2003).

Drawing on social exchange theory, Coleman (1973, 1988) employs social capital as a source of human capital. He defines social capital as social-structural resources, which consist of some aspect of a social structure and facilitate certain actions of individuals

within the structure (Coleman, 1990). Putnam (2000) develops this to define social capital as connections among individuals (social networks) and the norms of reciprocity and trustworthiness, arise from these networks.

For Lin (2001), however, more important than the pattern of social interaction in generating such a ‘social-structural resource’, are the resources that are actually exchanged in that interaction. Like Putnam, Lin (2001) argues that social capital can be modelled as a social network. Initially, ‘structural and positional variations’ differentiate positions in a social network, underpinning unequal opportunities to access or develop social capital. From these precursor positions, social capital can be mobilised, unevenly, via interactions with individual contacts and their resources. Finally, the accumulation of social connections and the resources they provide access to, leads to individual instrumental and expressive returns.

This model reflects the process of embedding social capital into social networks as resources and investments. Conceptually, we also consider social capital as resources embedded in social networks, just as with *guanxi*. The following subsections discuss the similarities and differences between *guanxi* and social capital. We argue there are structural differences between concepts, particularly the distinctive dyadic nature of *guanxi* ties.

### *5.2. Social structure: guanxi and social capital*

Huang and Wang (2011) compare social capital and *guanxi*, emphasising the dyadic nature of *guanxi* relationships, independent of the surrounding social structure or closure of social networks (see Figure 1).

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[Figure 1 About Here](#)

However, network analysis shows that social relationships are generally not independently dyadic (Borgatti, Everett, and Johnson, 2018). As shown in Figure 2, A maintains separate dyadic relationships with B and C. However, these are not strictly independent. The dyadic relationship between A and B (A–B) is affected by A's relationship with C. Social network analysts argue that there is a social tendency towards triadic closure (Borgatti et al., 2018).

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[Figure 2 About Here](#)

However, if only A or B has a relationship with C, the dynamics are different; if it is C-A-B (as shown in Figure 1), then A will have relations with each of the other two; if it is A-B-C, B will similarly have relations with each. Thus, the structure of these dyadic relationships as part of a larger network (the structure) constitutes the social capital of individuals and their position in the network. Thus, the discussion above on social capital and the dynamism of *guanxi* provides the basis for examining *guanxi* as a changing social network.

Huang and Wang (2011) conclude that *guanxi* and social capital concepts are similar and it has been argued that *guanxi* is a form of social capital (Luo, 2007; Wong, 2000). But Huang and Wang (2011) note that *guanxi* confers benefits or obligations reciprocally within the dyad and not simply by participation in a social network, as does social capital. Additionally, reciprocity and obligations depend on the closeness of the relationships within *guanxi* circles (Luo, 2016). That is, while *guanxi* is a form of social capital, the concepts of *guanxi* and social capital are not interchangeable; the social networks are more complicated than in the traditional analysis of social capital.

### *5.3. Guanxi ties and Business networks*

Tsang (1998) discusses the relationship of *guanxi* at the individual level and the organisational level. *Guanxi* exists at the organisational level via the individual *guanxi* ties of their members because all business transactions are initiated and managed by individuals. *Guanxi* is seen as an important relationship strategy in business because it can provide long-term competitive advantage. The *guanxi* possessed by members contributes to the organisation's human resources (Tsang, 1998). Benefits from *guanxi* in business include the smooth running of routine business operations, information about government policies, and receipt of administrative approvals (Davies, Leung, Luk & Wong, 1995). Thus, *guanxi* can be used to develop business practices.

### *5.4. Relationships within business network layers*

Relationship management is widely accepted as an important marketing strategy in many lines of business (Holmlund & Törnroos, 1997). Social relations and networks of relations facilitate many commercial transactions; business is increasingly acknowledged to be socially embedded (Uzzi, 1997). This embeddedness comprises several layers (Thompson, 2003), each with structural, economic and social dimensions (Holmlund & Törnroos, 1997). At the base layer, the individual level, personal interactions create social structure, whether influencing resource use decisions or underpinning social bonding and trust. In the middle layer, the resource level, resource use is embedded in human ties; business parties through connections bond to develop their business relations; influencing investment decisions. At the top layer, the production level, the structure is created by connections between organisations; firm actors performing production

activities in the business network are based on connection bonds; these influence organisation-wide investments.

Business networks differ with business context. Todeva (2006) distinguishes entrepreneurial small business networks; family business networks; Japanese corporate business networks and trading business networks; Korean circular shareholding networks; international corporate networks; and Chinese family and community business networks. Thus, *guanxi* comprises a particular form of business network, arising from the Chinese context. In this light, individual-level *guanxi* relationships can facilitate commercial transactions or business at the organisational level.

### *5.5. Guanxi as informal relations with business*

While the study of businesses largely focuses on formal, mandated arrangements and organisational structures related to business orientation, business mission and strategies (Chandler, 1969), the impact of informal relationships on organisational behaviour has long been recognised. Cross, Borgatti, and Parker (2002) argue that formal organisational network structures cannot accurately reflect the everyday dynamics and dependencies between people. Informal networks are not mandated and cannot be governed; they are emergent social structures (Mintzberg, 1973; Tichy, 1981). Informal relationships can offer important sources of task advice in business networks, affecting the process and the quality of decision-making (Kanter, 1977; Hickson et al., 1971). They can also be very valuable as personal relationships in business (Roethlisberger & Dickson, 2003), contributing to social identity and a sense of belonging, especially in closed or small networks (Wellman & Wortley, 1990). Informal networks can also provide personal

benefits such as information and resources to facilitate an individual's occupational mobility (Podolny & Baron, 1997).

Likewise, in China, *guanxi* contributes to informal governance mechanisms (Chung, Yang & Huang, 2015; So & Walker, 2013). For example, it facilitates reciprocation of personal and knowledge-based resources for mutual benefit and protection. But as dyadic *guanxi* is also embedded within wider informal networks, it facilitates wider social exchanges and cooperative relationships. Through direct or intermediate connections, contacts and relational confidences are transferable among actors (Yang & Wang, 2011). Thus, informal networks can expand the reach of *guanxi* into social economic activities among wider communities.

## **6. Network Dynamics and Principles**

Burt (2005) distinguishes two principal dynamics in social networks: network brokerage and network closure. Brokerage is the connection of otherwise disconnected actors or groups, more likely for people with larger, open networks. Network closure is a consolidation of ties among a group of people underpinning trust and reputation (Burt & Burzynska, 2017).

Burt (1992) combines the two dynamics in the concept of structural holes, gaps between groups of closely connected people in a social situation. He argues that there are competitive benefits for a broker from information obtained when connecting people in different groups. The broker can determine what and how much information they transfer from one group to another, retaining some information or exchanging the information for some benefit.

Granovetter (1983) argues that such bridging ties between groups are likely to be weak, rather than strong ties, because strong ties tend to lead to network closure. Tie strength is measured by, “the amount of time, the emotional intensity, the intimacy, and the reciprocal services” (Granovetter, 1983: 1361). With respect to *guanxi*, weak ties are likely to be those in the outer reaches of a *guanxi* circle, while strong ties are more likely among those in the inner circle.

### *6.1. Guanxi and Network Closure*

Networks with closure — that is to say networks in which everyone is connected such that no one can escape the notice of others, which in operational terms usually means a dense network — are argued to be the predominant source of social capital (Burt, 2000: 351).

There are two basic functions in network closure. The first is that network closure reduces the distance to information, comprising an important form of social capital (Coleman, 1988). For example, a person who is not greatly interested in current events but is interested in important developments can save the time required to read a newspaper by sourcing the information from a friend who does pay attention to such matters.

The second function of network closure is the strengthening of trust by sanctioning behaviours that reduce risk within the network. Closely connected members of a social group can monitor and be monitored by others. “Members of a closely-knit network can trust each other to honour obligations, which diminish the uncertainty of their exchanges and enhance their ability to cooperate in the pursuit of their interests” (Gargiulo & Benassi, 2000: 184).

Grounded in strong base ties (blood, nature and acquired), *guanxi* networks tend towards network closure, particularly in the innermost kinship-based *guanxi* circles. Trust tends to be greatest in the core circles and weaker in the outer acquired circles, or it costs more effort to develop trust where there is less network closure. Huang and Wang (2011) find that Chinese businesspeople in closed networks have more trust and share mutual contacts. Burt and Burzynska (2017) find trust is influenced by the frequency and duration of interaction and find that in Chinese business networks, most contacts and most trusted contacts come from families, high trust relationships are most likely embedded in a closed network. Burt, Bian and Opperl (2018) find similar effects on reputation.

### *6.2. Guanxi and Network Brokerage*

Extending Burt's (1982) theory of brokerage and closure, Burt and Burzynska (2017) explain some characteristics of business in Asia: people are inclined to ask for advice or exchange information with their friends or families rather than with unrelated individuals. In Asian businesses, more friends mean higher status in dense (closed) networks and there is a greater obligation to help a group member.

So, in Chinese social networks, network brokerage could violate collectivist social norms (Yang & Zhang, 2015; Xiao & Tsui, 2007; Ma, Huang & Shenkar, 2011). However, some researchers have identified effective use of network brokerage in China. Chinese entrepreneurs with open networks outperform those with closed networks (Batjargal, 2007), those brokering between different groups across sectors raise more start-up capital (Bian & Wang, 2016). Burt and Burzynska (2017) find that Chinese business entrepreneurs with networks richer in structural holes with low constraint (larger and open

networks) have greater business success than companies with high network constraint (smaller and closed networks).

According to Tsang's organisational *guanxi* analysis (1998), *guanxi* exists at the organisational level through business transactions. In other words, *guanxi* exists when a formal collaboration agreement occurs between two organisations. However, *guanxi* may also exist between organisations but only based on *guanxi* among individuals. This is similar to knowledge in organisational learning, which takes place in individuals' heads; if a staff member's knowledge is not recorded in their organisation, once the staff member leaves, the organisation loses that knowledge. Additionally, individual brokers can influence the knowledge that enters or leaves the organisation (Kwon et al., 2020). Likewise, organisational *guanxi* is both transmissible and can be brokered.

### *6.3. Brokerage and Closure in Chinese Business Networks*

In his theory of structural holes, Burt (1992) argues that open networks are more important than closed networks because these have the potential for the highest economic return. He calls the sparse areas of open networks 'structural holes', meaning a gap between two actors linked to the same actor, but not linked to each other directly. Burt (2005) argues that structural holes appear because 1) information circulates faster within groups than between groups; 2) limited time and energy constrain people from maintaining connections with many others; 3) variations in beliefs and practices occur at the individual level, as well as at the group level; people can only 'trace' several certain ties, but lose 'track' of other people or groups.

Applying this to business networks, Burt (1992) argues that effective cooperation between businesses involves strategic partner selection. Companies can make use of

structural holes to obtain unique, non-redundant information, for example, to provide a price negotiating advantage, leading to better profit margins (Burt, 1992: 85). By bridging structural holes, and acting as a broker between unconnected groups, entrepreneurs can benefit from decisions over what information to pass between the groups (Gargiulo & Bennassi, 2000).

By contrast, in '*guanxi* circles' (Luo, 2016), the core of the circle is kinship or family ties, so network closure might emerge by default. The middle circle, *guanxi* by nature, may exhibit some network brokerage alongside closure. In the outer circle, *guanxi* by acquaintance, brokerage may be most prominent. However, Lu and Reve (2011) argue that in general, at an individual level, it is likely that brokers may give up structural holes to gain dyadic *guanxi* benefits, tending to create closed ties and dense networks that are more stable and involve more trust and reputation. Structural holes and brokerage thus are more likely to emerge at the organisational level, where business benefits of accessing and controlling novel information may outweigh individual-level obligations favouring closure.

Individual-level *guanxi* is also likely to tend towards closure because accumulating and maintaining *guanxi* is a long-term process of dyadic reciprocation and the benefits are long-term; the key indicator of longevity is reciprocation (Lu & Reve, 2011). By contrast, the benefit of individual-level brokerage, an information advantage from bridging a structural hole, is likely to be short-term, while the act of brokerage is exploitative of an advantage, militating against reciprocation and long-term *guanxi*. The key indicator here is network reach, the number of non-redundant alters (Burt, 1992), also underpinning short-term longevity as multiple ties are expensive to maintain, especially among strong, trusted ties (Granovetter, 1983). Organisational-level *guanxi* operates on a much shorter

time horizon; business deals are made and strategies change many times within the lifetime of an individual. So, the organisational benefits of *guanxi*, whether those from closure or brokerage, are more short-lived than the long-term tendency towards *guanxi* closure at the individual level.

Thus, the dyadic nature of *guanxi* means that Chinese business networks have distinctive characteristics. While both closure and brokerage network dynamics are likely to be found in Western networks, in Chinese business networks we can expect a general tendency towards long-term closure with some brokerage at the individual level and short-term brokerage with some closure at the organisational level. Table 2 summarises the network expressions of these forms.

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[Table 2 About Here](#)

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## 7. Guanxi Dynamics with International Exposure

The interfaces between international exposure and *guanxi* business network structure can be illustrated by the connections between ties under the *guanxi* bases and network principles in an international business environment. Figure 3 offers deeper insight into the elements that affect *guanxi* activities in an international network from the angle of *guanxi* ties – kinship ties, non-kin ties and informal ties.

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[Figure 3 About Here](#)

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To the kinship and non-kin ties underpinning *guanxi* base: relationship by blood, relationship by nature, and relationship acquired (Fan 2002), international exposure tends to introduce some previous connections (non-kin ties) and a large number of, often fleeting, informal ties. In as much as these business connections become *guanxi* ties,

informal ties are most likely to comprise *guanxi* acquired but may also reinforce neighbourhood connections, *guanxi* by nature, or rarely even long-lost *guanxi* by blood.

As discussed above, a general tendency towards network closure is likely to be found primarily in *guanxi* blood and somewhat in *guanxi* by nature ties. As international exposure will add some *guanxi* by nature, it will reinforce some network closure. However, the stronger tendency of internationalisation will be to add informal ties and *guanxi* acquired, providing new opportunities for network brokerage. As discussed, the latter is most likely to be seen in the short term and mostly at the level of inter-organisational ties.

We can thus consider the different forms of *guanxi* likely in different conditions of international business exposure and the extent of brokerage or closure.

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**Table 3 About Here**

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As presented in Table 3, among Chinese businesses with little international exposure and little brokerage (high closure), *guanxi* is likely to be prevalent, and comprise primarily *guanxi* by nature, as business relationships with families are uncommon. With little international exposure and high brokerage, *guanxi* is likely to remain prevalent but with few business opportunities to share, likely be restricted to the inner circle of *guanxi* by nature and by blood. Among businesses with great international exposure but low brokerage, *guanxi* is likely to be less prevalent and be restricted to *guanxi* by nature, as opportunities to provide *guanxi* benefits are few. Finally, with great international exposure and high brokerage, *guanxi* is likely to be little used and be restricted to *guanxi* by acquisition. However, in this situation, we are also likely to see ‘gateway ties’ where

brokerage opportunities are shared with the most trusted inner circle, including *guanxi* by blood.

## 8. Discussion

Rather than a symptom of underdevelopment, a compensating mechanism for regulatory failure (Boisot & Child, 1996) likely to be swept away with social and economic modernisation (Huang, 2008; Guthrie, 2002), *guanxi* persists as a distinctive characteristic of Chinese business domestically and in its international interactions. But nor does contemporary *guanxi* comprise a reinforcement of ‘pre-modern’ vestiges by ‘centrally managed capitalism’ (Boisot & Child, 1996; Lin, 2011); these are not simply age-old practices in new clothes, as suggested by Chang (2011). Rather, we find support for Bian’s (2018) proposition that the influence of *guanxi* in business is contingent on the type of business interactions involved.

We extend Bian’s (2018) typology of *guanxi* behaviours in business to consider the effects of differences in international exposure. Further, we develop traditional approaches to the study of *guanxi* relationships solely in static, dyadic terms to consider the effects of third-party contacts in social networks. In this, we draw primarily on Burt’s (1992, 2005) theory of structural holes and the contrast between social brokerage and closure. However, we maintain the distinctive dyadic character of *guanxi* within social networks to consider its impact on the brokerage and closure dynamics. We theorise the likelihood of both brokerage and closure in social networks involving *guanxi* ties at the individual level, involving different *guanxi* circles but with a general long-term tendency towards closure. Short-term brokerage, by contrast, is likely in inter-organisational networks drawing on individual *guanxi* ties, including a particular form of brokerage,

‘gateway ties’ (Gao et al., 2012), between internationally exposed brokerage and inner *guanxi* circle closure.

## 9. Conclusion

By applying the social network approach to Chinese business networks, we have identified important dynamics between *guanxi* at an individual and that at an organisational level in differing conditions of international exposure. The approach considers three elements of the networks in terms of *guanxi*: dyadic reciprocity, *guanxi* transmissibility via social networks, dynamics between short and long-term tendencies towards brokerage and closure. Our differentiated approach adds value to the current debates on the ongoing significance of *guanxi*. Our model of *guanxi* in different conditions of international exposure fills a gap in the understanding of *guanxi* influence in business and the dynamics of brokerage and closure.

The model remains to be tested empirically. A valuable approach would be to compare the *guanxi* relationships of managers from firms located in each of the four quadrants of the model. A mixed methods approach could consider these managers’ subjective views on *guanxi* experiences and explore *guanxi* network dynamism in the four quadrants of the model.

Future research may benefit from a consideration of the dyadic *guanxi* effects of transmissibility and reciprocation on small-world networks. Small world networks are constituted by long paths of ties between dense clusters (Watts & Strogatz, 1998) which determine the efficiency of information transfer within networks (Opsahl et al, 2017). The ratio of long paths to dense clusters within a network shapes the opportunities to obtain benefits from brokerage or closure. This is of particular interest to Chinese firms that have

open networks, who benefit more from network brokerage (Batjargal, 2007) and for internationally exposed firms, where this exposure is likely to provide ties to otherwise inaccessible clusters of interacting businesses (Jansson, Johanson & Ramström, 2007).

As we have found the presence of *guanxi* ties in business networks to promote dynamics of short-term brokerage at individual and organisational levels alongside a long-term tendency towards closure at an individual level, the extent to which a network reflects an ideal type of small world is likely to affect the *guanxi* influence and dynamic. These tendencies are also likely to influence the extent to which a business network involving *guanxi* ties reaches a small world state, with implications for the efficiency of business interactions in that network. Similarly, small-world effects at an organisational level may be undermined by the long-term tendency towards closure in *guanxi* at the individual level.

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*Table 1. Guanxi Definitions*

<b>Directions</b>	<b>Guanxi definitions</b>
<b>As relationships</b>	<i>Guanxi</i> comprises direct particularistic ties between two individuals. These ties are based on having a commonality of shared identity or attributes.
Jacobs (1982)	
<b>As investments</b>	<i>Guanxi</i> is a power relationship as one's control over a valued good or access to it gives power over others.
Gold (1985)	
<b>As investments</b>	<i>Guanxi</i> is an interpersonal relationship, with social connections or relationships based on reciprocal interests and benefits.
Bian (1994)	
<b>As investments</b>	<i>Guanxi</i> is fundamentally embedded in the interpersonal relationship between two individuals.
Zhuang et al. (2010)	
<b>As investments</b>	<i>Guanxi</i> is a form of social investment, an important resource that a person uses to find help or support.
Butterfield (1983)	
<b>As investments</b>	<i>Guanxi</i> is a process of two people's social interaction. For example, A asks B for a favour. B may be able to give, or B has to seek further from other connections; it starts another process.
Fan (2002, p549)	

*Table 2. Individual and Organisational Guanxi*

	<b>'Guanxi circles'</b>	<b>Guanxi base</b>	<b>Network</b>
<b>Individual <i>guanxi</i></b>	Core	<i>Guanxi by blood</i>	Network closure
		<i>Guanxi by nature</i>	Network closure and brokerage
	Periphery	<i>Guanxi acquired</i>	Network brokerage
	<b>Business Networks</b>		<b>Access to novel resources</b>
<b>Organisational <i>guanxi</i> (Depends on the nature of individual <i>guanxi</i>)</b>	Network closure	Less	More trust
	Network brokerage	More	More costly to develop

Table 3. Guanxi International Exposure model

<b>Brokerage</b>		<b>International Exposure</b>	
		Low	High
Low	<b>Guanxi usage condition:</b>	<b>Guanxi usage condition:</b>	
	More <i>guanxi</i> than high international exposure	Less <i>guanxi</i> than low international exposure	
	<b>Guanxi embedded:</b>	<b>Guanxi embedded:</b>	
	Primarily periphery of ‘ <i>guanxi</i> circles’	Primarily periphery of ‘ <i>guanxi</i> circles’	
<b>Distribution:</b>		<b>Distribution:</b>	
	Mainly network closure	Mainly network closure	
High	<b>Guanxi usage condition:</b>	<b>Guanxi usage condition:</b>	
	More <i>guanxi</i> than high international exposure	Less <i>guanxi</i> than low international exposure	
	<b>Guanxi embedded:</b>	<b>Guanxi embedded:</b>	
	Close to inner circle of ‘ <i>guanxi</i> circles’	Close to inner circle of ‘ <i>guanxi</i> circles’	
<b>Distribution:</b>		<b>Distribution:</b>	
	Mainly network brokerage	Mainly network brokerage	

Figure 1. Guanxi Relationships—Dyadic

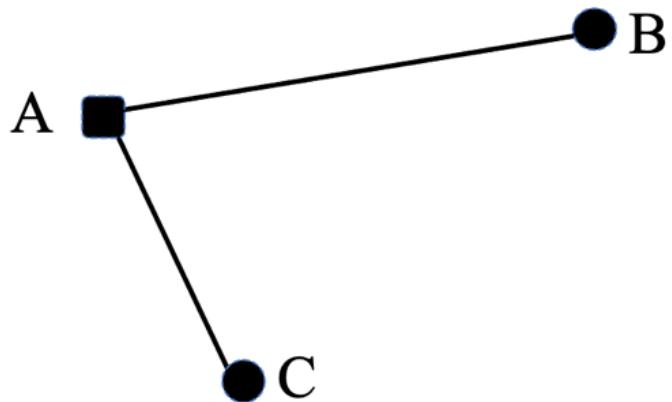


Figure 2. Triadic Closure

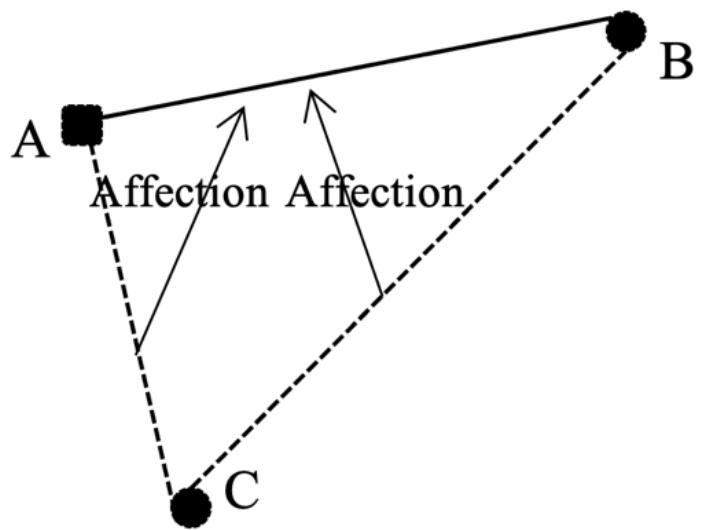


Figure 3. A Social Network Model of Guanxi Ties

