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**The impact of the Chinese way of doing business on internationalization strategies:** Exploring the internationalization process model and the role of guanxi for Chinese firms venturing to advanced economies



**Doctor of Philosophy (PhD) Thesis**

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## **Dedication and Acknowledgements**

### **Dedication**

To my beloved wife, Tracy and our four wonderful children, Michael, Hannah, Theo, and Theresa, who have been my constant source of love and inspiration. This journey, filled with challenges and triumphs, is dedicated to you.

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## **1. Introduction**

Chinese companies have firmly arrived as strong players on the global stage including in the most developed economies such as the United States and Europe. Lenovo, Huawei, Geely, XCMG, Alibaba and ByteDance are just a few examples of Chinese multinational companies that are at the forefront of their respective industries. Looking back, with its reforms and “Opening-Up” policy, China became a major recipient of Foreign Direct Investments (FDI) and for decades ranked as one of the most attractive countries worldwide for such kind of investments (A.T. Kearney, 2018). The entry of foreign enterprises into the Chinese market by engaging in business relationships and forming partnerships with local firms led to the “inward internationalization” of Chinese firms. This marks the first period of internationalization of Chinese firms. However, despite the huge size and rich opportunities of the Chinese market, more and more Chinese companies have invested outside of their home country. National programs, such as the “Belt and Road Initiative” (BRI) and “Made in China 2025” are very prominent initiatives to promote internationalization of Chinese firms. However, to take a more comprehensive view, reasons for the increase in outward internationalization can be found on environment- and firm-specific level.

Environment-specific reasons for outward internationalization are (i) a competitive response to market-entry of Western MNCs (Buckley et al., 2007); (ii) to escape from restrictive home country business environment (Witt & Lewin, 2007); (iii) to overcome competitive disadvantages of Chinese firms like regional protectionism, limited access to

capital, etc. (Child & Rodrigues, 2005; Deng, 2009); (iv) high corporate savings and weak corporate governance; (v) government supported investment overseas to establish “National Champions” (Ramamurti & Hillemann, 2018); and (vi) China’s inefficient banking system that channels the large funds available to China’s highly visible outward FDI (Morck, Yeung, & Zhao, 2008). In addition, Buckley et al. (2007) expects that the relaxed administrative controls and the streamlining of approval processes will continue to increase China’s outward FDI flows for the foreseeable future.

Previous research has also found reasons on firm level for outward internationalization. Some of the most prominent motives mentioned are for example the establishment of a global brand, acquisition of strategic assets like technological know-how, access to managerial expertise and know-how, sales and profit growth opportunities, diversification of business activities, and improvement of production process efficiencies (Child & Rodrigues, 2005; Hertenstein, Sutherland, & Anderson, 2017; Morck et al., 2008).

Although insights about the internationalization motives, modes, and market-entry strategies of Chinese firms have been gained, little empirical research has been conducted on how Chinese firms operate in overseas markets (Child & Rodrigues, 2005). This is especially true for the operations of Chinese firms in developed economies (Ge & Ding, 2008). It is also particularly interesting to investigate the European context, as Europe became the most popular destination for outward FDI by Chinese firms in developed countries in 2017 due to the current political tensions in China-US relations (Rhodium Group, 2018).

### **1.1. Research Problem and Objective**

Park & Luo define *guanxi* as “[...] a cultural characteristic that has strong implications for interpersonal and interorganizational dynamics in Chinese society. It refers to the concept of drawing on a web of connections to secure favors in personal and organizational relations. Chinese people and organizations cultivate *guanxi* energetically, subtly, and imaginatively, which governs their attitudes toward long term social and personal relationships. *Guanxi* is an intricate and pervasive relational network that contains implicit mutual obligations, assurances, and understanding. It has been pervasive for centuries in every aspect of Chinese social and organizational activities. Modern Chinese society still operates within the realm of these countless social and business *guanxi* networks.” (2001, p. 455). *Guanxi* has his roots in the Chinese Confucian philosophy and has strongly governed the Chinese social fabric (Reid & Jallat, 2006).

Analyzing the existing literature, shows that much research has been published on the role of *guanxi* in the success of market expansion and operations of Western MNCs and/or Chinese firms in the context of the Chinese market (Ahlstrom, Bruton, & Yeh, 2008; Buckley, Clegg, & Tan, 2006; Luo, Huang, & Wang, 2012; Park & Luo, 2001; Reid & Jallat, 2006). However, to better understand *guanxi* in different settings, Reid & Jallat suggest that “[t]he impact of *guanxi* on [...] internationalization may be an area of subsequent study.” (2006, p. 50). In this field, there has been scarce research conducted on the role of *guanxi* for Chinese outward internationalization (Zhou, Wu, & Luo, 2007).

For the 40<sup>th</sup> anniversary of the internationalization process model (IPM) Johanson and Vahlne (2017) enhanced their model with the addition of change and state variables and shifting to a multinational business enterprise (MBE). Despite this update, other

researchers bring forward the persistent limitations and shortcomings of the IPM (Coviello, Kano, & Liesch, 2017; Håkanson & Kappen, 2017; Hutzschenreuter & Matt, 2017; Santangelo & Meyer, 2017) and introduce new theoretical constructs in path-breaking commitment, upside and downside risks, and embeddedness in business ecosystems (Santangelo & Meyer, 2017), indirect experimental learning and knowledge transfer of a network of subsidiaries (Hutzschenreuter & Matt, 2017) and the importance of the new digital context and of individual decision-makers (Coviello et al., 2017) to challenge the IPM. These may prove to be useful counterpoints and extensions, but still ask for an empirical validation.

The main objective of this thesis is to extend the existing theory of the internationalization process model and develop new theory centered around the concept of *guanxi* in the context of the internationalization of Chinese firm. In particular, this research seeks to explore and explain how Chinese business and management practices change when Chinese firms move outside of their country and culture and thereby explore a field that has been scarcely researched (Buckley et al., 2018). It will also test the applicability of the internationalization process model in the context of emerging market firms venturing to advanced economies with the objective of theory extension. In addition, it addresses the existing methodological disparity in the field of international business research by applying the still hesitantly used qualitative research method of case study research in this context of internationalization of emerging market firms. Finally, the managerial implications of this research project are to generate a better understanding of the internationalization of Chinese firms to developed markets, which importance is rapidly growing. The research

may also give indications about how Chinese latecomers accelerate their internationalization processes and overcome initial disadvantages.

## **1.2. Research Questions**

Based on the review of the literature the respective research questions below are posed to try to encircle and characterize the subject of research interest in more detail.

### **1.2.1. Decision-making about market selection and entry**

Business networks and social networks play a role for the decision about internationalization. Recent research about the former has indicated that the first step in internationalization of some Chinese firms may actually occur in the home country due to business networks that Chinese firms establish with foreign MNEs (Hertenstein et al., 2017). Hence, in line with the original internationalization process model inward FDI can be seen as the first step of outward FDI partly thanks to the collaboration between foreign MNEs and local firms in business networks and thereby reducing psychic distance and the risk of going abroad (Johanson & Vahlne, 1977). However, other research argues that Chinese MNEs internationalize in different ways than the IPM suggested by (i) internationalizing rapidly than gradually, (ii) entering psychically distant markets earlier and (iii) use high-commitment modes of entry earlier (Ramamurti & Hillemann, 2018). Also within the theoretical frame of the internationalization process model, Coviello et al. (2017) argue for the shift to micro-level influencers, which are the individual decision-makers at firms internationalizing or intending to internationalize to extend the theory. By looking at *guanxi* of individual managers this research is precisely following this call.

*Guanxi* provides decision-makers with distinct benefits. Business network ties may provide the Chinese company with better idea about the attractiveness of foreign markets, which together with a higher risk tolerance of emerging market firms may lead to an easier decision about internationalization (Cuervo - Cazorra, 2012). Secondly, existing social networks may also play an important role for internationalization. Existing empirical research has shown that social networks influence the export initiation (Ellis & Pecotich, 2001); help to identify foreign exchange partners (Ellis, 2000); provide tacit knowledge about international business practices (Sharma & Blomstermo, 2003) and help to sharpen international vision and managerial openness (Chen, 2003). Zhou, Wu, and Luo (2007) conclude that home-based social networks provide members three information benefits: (i) knowledge of foreign market opportunities; (ii) advice and experiential learning and (iii) referral trust and solidarity by a third party. In summary, business and social network ties seem to have a strategic value for firms and offer information exchange possibility that may ultimately lead to investment outside of the home country.

In the context of Chinese outward internationalization, it is worthwhile to investigate how network benefits may have influenced the decision to move to other markets. Hence, the following question tries to understand the role of *guanxi* in the pre-outward or early internationalization phase:

- What role does Chinese *guanxi* play in decisions about international market selection and market entry mode among Chinese firms, and how does it influence their internationalization strategies and the process of internationalization?

### **1.2.2.Overcoming the liability of outsidership**

Even though Chinese investments to Europe have increased rapidly in the last decade, Chinese firms are in general newcomers to the European market and therefore outsiders to the established European business networks. Yet, Chinese firms are well known for their ability to establish, manage, and exploit personal social network ties for the companies' strategic purposes (Chai & Rhee, 2010; Gu, Hung, & Tse, 2008). The internationalization process model extends the view toward a network perspective of the firm. A firm's business environment is viewed as webs of relationships. The firm can make use of its existing business relationships to identify and exploit opportunities that may lead to expansion in foreign markets. When a firm ventures into a new market where it has no existing connections, "outsidership" in relation to the relevant network is the key reason for difficulties in establishing a footprint there (Johanson & Vahlne, 2009; Vahlne & Johanson, 2017). However, in the case of Chinese firms, the Chinese diaspora abroad may reduce distance and bridge or mediate between the host-country business network and the Chinese firm. The empirical research is inconclusive with divergent results (Blomkvist & Drogendijk, 2013; Ellis, 2011). Compared to other prominent international evolution theories such as the eclectic paradigm (Verbeke, Dunning, & Lundan, 2008), the IPM seems to be particular appropriate for this research question due to its focus on firm-level processes, its inclusion of individual-level assumptions and its usefulness for managerial practice (Vahlne & Johanson, 2017; Vahlne & Johanson, 2013).

Therefore, in the context of Chinese firms facing liability of outsidership in developed markets, it is worthwhile to investigate how their well-researched home country business practice of establishing and using *guanxi* facilitates their expansion efforts. Hence, this research question is raised:

- What role does *guanxi* play for Chinese firms in overcoming their outsidership and in establishing trust in European business networks?

### **1.2.3. Management of overseas subsidiary**

The internationalization process model stresses the importance of learning and knowledge accumulation (Johanson & Vahlne, 1977). Hutzschenreuter and Matt (2017) argue to further investigate the current “black box” of the actual knowledge accumulation and experimental learning process within MNE firms in the context of the internationalization process model. Their focus is on the importance of the subsidiary portfolio of a MNE and the indirect effects in learning. This research intends to follow this call and further untangle this “black box” to better understand how *guanxi* inside of a Chinese MNE influence the headquarter and subsidiary relationship and discuss the findings critically with the 2021 extension of the IPM towards coordination and governance of a global business network by the headquarter, i.e. the lead company (Vahlne & Johanson, 2021).

Previous research has indicated that *guanxi* may play a role in the management and coordination of international business operations. For example, Standifird and Marshall (2000) demonstrated a transaction cost advantage of the *guanxi* system in business transactions. When a *guanxi* network is well-developed, it has significant transaction cost advantage in terms of reduced environmental and behavioral uncertainties and opportunistic behavior. In line with this is the proposition of Su, Mitchell, and Sirgy (2007) that *guanxi*-oriented internal management, i.e. fostering good interpersonal relationship among managers, can facilitate information flow, leading to a higher level of mutual

understanding and trust. Also, good internal *guanxi* between managers and employees can enhance loyalty and help to maintain positive work morale.

Social network ties may also play an important role for knowledge management. For example, (Fu, Tsui, & Dess, 2006) developed a dynamic model for the role of *guanxi* for knowledge management at various developmental stages of Chinese high-tech firms. They argue from their empirical research that as the firm continues to grow, different trust levels of *guanxi* relationships should be used for knowledge management.

The final research questions address these issues which are relevant for the management and coordination of the international operations:

- What role does *guanxi* play in the governance and coordination between the Chinese headquarter and developed market subsidiary in terms of trust, learning, and information exchange?

### **1.3. Theoretical novelty and contribution**

Hernandez and Guillén (2018) articulate in their commentary that there are four fundamental ways emerging market multinational enterprises (EMNE) can be viewed towards contributing to new international business theory: (i) the classic paradigm accounts for EMNEs; (ii) EMNEs create boundary conditions for the classic paradigm; (iii) EMNEs require modifying underlying assumptions in the classic paradigm; and (iv) EMNEs require a new paradigm altogether. This research project argues for the second case – Chinese MNEs create boundary conditions for the classic paradigm and may thereby extend classical theory. By relying on the extant context-specific research stream on *guanxi* as

well as the classic paradigm in the internationalization process model as theoretical foundation, I expect new themes and theoretical constructs to emerge from the analysis of qualitative data to extend and develop theory that is relevant for all MNEs, but at the same time is embedded in the specific context of Chinese firms. Hence, the research contribution aims to extend classic theory and at the same time develop new context-specific theory. This follows the suggestions of Buckley et al. (2018) and aims to shed more light on Chinese management practices in an international context, while enriching current international business theory.

#### **1.4. Research methodology**

In line with Vahlne and Johanson (2017), who argue to prioritize qualitative research over quantitative research methods for the internationalization process model, and given this rather new phenomenon of Chinese outward internationalization the focus is on theory extension and new theory generation. Hence, this research project employs qualitative research (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Yin, 2003). The qualitative approach taken in this research is a multi-case study design, which allows one to build on and broaden existing findings and to generate new theoretical insights in this underexplored field of Chinese internationalization. Exploratory research investigates phenomena which have not been well-understood yet by defining propositions as a basis for future research (Yin, 2003). This approach is chosen for this research project.

A qualitative approach allows issues to emerge and therefore can better grasp the meaning of the topic (Reid & Jallat, 2006) and case study research enables explorative research to generate new theoretical concepts (Eisenhardt, 1989). The cases are selected based on a

theoretical sampling procedure and represent a wide range of theoretically relevant features of the object of inquiry. The sample is finished when theoretical saturation has been reached, which means that an additional case does not add any further theoretical value to the research (Strauss & Corbin, 1998).

The primary form of data collection are multiple semi-standardized in-depth interviews with managers of the case study firms. This interview model allows for flexibility in interview situation and may produce rich and valuable data. In addition to the interviews, secondary sources are used when available. The qualitative data analysis is based on the grounded theory methodology and using an appropriate qualitative research software. Grounded theory is a general method of comparative analysis to discover theory controlled by empirical data. The theory is grounded as it derives from data and emerges out of the interplay between researchers and data (Strauss & Corbin, 1998).

The research follows recent suggestions about context, design and empirical analysis to ensure a high degree of trustworthiness of its findings (Cuervo-Cazurra, Andersson, Brannen, Nielsen, & Reuber, 2016).

### **1.5. Data collection and analysis**

The data was primarily collected from semi-structured interviews with 45 interview partners from 19 Chinese firms that are active in Europe and headquartered in China. The European subsidiaries investigated in this study are in member countries of the European Union. Some of my cases were not applicable for all three research questions. Therefore,

the number of interviews and cases used for each of the respective research questions will be lower than the total number and is dependent on the specific case-by-case context.

To comprehensively ascertain the perceptions of executives, viewpoints from different managerial levels were gathered (Isabella, 1990). My participating interview partners represent three different levels: (1) Top-Management team members of the corporation including the CEO, CFO and CSO, (2) the Management team members for the international market including, the general manager and the overseas sales officer, and (3) middle managers such as strategy, marketing, or project managers. All of the participants have extensive decision-making power or influence on the business operation of their firm. The B2B setting is especially interesting for exploring the topic of *guanxi* because of the greater importance of client interaction and customer relationship management than in the business-to-consumer (B2C) context (Coviello & Brodie, 2001; Gruen, 1995).

The interviews were semi-structured “so that the conversation could develop freely according to the answers of the informants, and to allow in-depth inquiry” of areas of special significance to the interviewee (Mäkelä & Maula, 2005), (p. 238). On average each interview lasted 75 minutes, with the shortest interview at 20 minutes and the longest at 150 minutes. They were audio recorded in 39 of the 45 occasions. In 6 occasions the interview partner refused the audio recording and notes were taken instead. The interviews were conducted mostly in the native language of the participant as previous researchers suggest that this allows participants to express ideas more freely and accurately (Guo & Miller, 2010). In a handful cases, where I was not able to speak the native language of the interviewee, English was used.

An interview guideline and an overall description of the research were sent to the participants prior to the interview to ensure their familiarity with the topics of interest. The interviews were designed to learn as much as possible about a participant's perceptions, observations, and thoughts related to my research questions. I tried to ensure consistency of understanding about described phenomena during the interviews by ensuring that interviewees thoroughly understood the topics when they were introduced. To reduce the chances of misinterpretations of the interviewee after the interview, I sent the verbatim transcripts to the interviewees for revision.

Qualitative information derived from the interviews was supplemented by several secondary sources to increase the reliability and validity of the data (Miles & Huberman, 1994). For each of the companies included in this study, I analyzed annual reports, company biographies, and other publicly available material. For a few firms I had additional access to non-public company information, which was used. Through this analysis, I became familiar with the companies and industry sectors, as well as the company's self-perception of its role in the marketplace. Moreover, I investigated analyst reports, print media, and the Internet for further company and industry-related information to gain third-party information about the firms and their environment. This background reinforced and provided orientation for the statements made by the participants. Secondary data sources complemented the insights gained through primary data sources (Miles & Huberman, 1994).

For the qualitative data analysis I used comparative analysis to discover theory that can be derived from the empirical data (Strauss & Corbin, 1998). With the intention to recognize categories and properties of the collected data, I'm applying the standard open, axial, and

selective grounded theory coding processes (Strauss & Corbin, 1998). The entire process of coding and interpretations is facilitated by using QDA software. My analysis moves back and forth between previously identified recurring categories of data and newly collected interpretations of phenomena. This iterative procedure is aiming to achieve a higher level of abstraction (Martin & Turner, 1986), encompassing all shades of the data (Isabella, 1990) modified the initial categories as necessary, removing older ones and adding new ones that accounted for newly identified evidence.

### **1.6. Outline of the remaining chapters**

The following chapters of my thesis are based on the three research questions previously posed. The main objective of this thesis is to contribute to the theory in the field of study. A proven way to demonstrate this is the publication of the research results as papers in recognized peer-reviewed academic journals. My aim is to produce three independent academic research papers out of this thesis. At the time of submission of this thesis, a version of chapter 3: “The role of *guanxi* for overcoming liability of outsidership” was already published in the journal “Thunderbird International Business Review” with me as the sole author. A similar path is planned for the chapters 2 and 4, accordingly. Therefore, the chapters were written in way that may operate as standalone paper with their own respective introduction, methodology section and conclusion. To this end, repetition of some text elements was unfortunately necessary. Additionally, for the purpose of the eventual journal publication the author is using plural (“we”) instead of singular (“I”) in the following chapters to proactively account for high probability of co-authors to be

eventually added to those publications. Also, I would argue it improves the overall readability of the chapter as this is what the reader is most accustomed to when reading academic articles. However, despite the use of plural, I can hereby certify that all of the work and writing in the following pages was done by myself alone without the support of any co-authors at this point in time.

## 2. The role of *guanxi* in internationalization decisions of Chinese firms to advanced markets

### 2.1. Introduction

In an era of globalization, the expansion of Chinese firms into advanced markets, such as Europe, the USA, and the UK, has emerged as a crucial aspect of China's economic development and increasing global influence. These markets, characterized by highly competitive landscapes and established business networks, pose unique challenges and opportunities for Chinese companies seeking to establish a foothold. In this context, the concept of *guanxi*, deeply rooted in Chinese culture, may act as an important factor influencing decision-making processes and strategic actions of Chinese firms deciding about venturing into advanced markets. This research uses the Uppsala model of firm's internationalization as the theoretical foundation and aims to enrich it by untangling the black box of decision-making of Chinese internationalization by focusing on individuals and their *guanxi*.

*Guanxi* plays a fundamental role in Chinese business and society. It embodies a set of informal networks, reciprocal relationships, and social obligations that facilitate interpersonal interactions and exchanges of favors, information, and resources (Luo, 1997b; Luo, Huang, & Wang, 2011).

Despite the increasing scholarly interest in *guanxi*, there remains a notable gap in our understanding of its implications for decision-making regarding market selection and entry strategies in the context of advanced markets and the internationalization of Chinese MNEs (Reid & Jallat, 2006). While several studies have explored the relevance of *guanxi* within

the domestic Chinese business environment, its impact on the internationalization process of Chinese firms remains relatively unexplored (Du & Zhou, 2019). This is surprising when one keeps in mind mainstream IB theorizing, notably the internationalization process model (Johanson & Vahlne, 2009), strongly emphasizes the role of “networks” in determining the internationalization strategies/ processes of MNEs. We shall explore how the concepts of “networks” (as per IPM) and *guanxi* interface and relate to one another.

By first conducting a comprehensive analysis of existing literature, we aim to summarize the extant research on the role of *guanxi* in the decision-making processes of Chinese firms as they navigate the complexities of advanced markets. Similar to the work of Ngoma (2016) on foreign entrepreneurs and their *guanxi* relationships in China, this research focuses on the individual decision-maker and adopts a multidimensional approach, examining the influence of *guanxi* at different stages of the market selection and -entry, and resource commitment process. However, it turns around the perspective and focuses the lens on the Chinese entrepreneur venturing into advanced markets.

Moreover, this study explores the interplay between *guanxi* and the Uppsala internationalization process model including its evolution over time (Johanson & Vahlne, 1977, 2009; Vahlne & Johanson, 2020). In their recent publication, Vahlne focused the attention on the individual decision-maker for non-linear internationalization (Vahlne & Schweizer, 2022). By combining one of the most prominent models for internationalization with the contextual research on *guanxi*, this research aims to untangle the multifaceted strategic choices of Chinese firms when they decide for international markets and their levels of commitment. By unraveling the intricate mechanisms through which *guanxi* operates in advanced markets, this research seeks to provide valuable insights for

practitioners, policymakers, and scholars aiming to understand the internationalization efforts of Chinese firms.

Ultimately, this research aims to answer the research question of “What role does Chinese *guanxi* play in decisions about international market selection and market entry mode among Chinese firms, and how does it influence their internationalization strategies and the process of internationalization?” by analyzing the cases of 19 Chinese firms derived from 45 number of interviews and more than 2000 pages of secondary data, this research aims to contribute to the broader literature on emerging market firms’ internationalization, and the Uppsala internationalization process model by elucidating the unique role of *guanxi* in the decision-making processes of Chinese firms. By enhancing our understanding of *guanxi*’s influence on market selection and entry strategies, this research aims to advance both theoretical knowledge and practical implications. It contributes to the existing stock of literature on internationalization strategies by untangling the black box of *guanxi*. It explains how cultural and relational factors shape the internationalization choices of Chinese firms. On the managerial side the results of this research advice of the influence of *guanxi* on important internationalization decisions of Chinese firms, providing more insights to firms seeking to collaborate or compete with Chinese newcomers.

## **2.2. Theoretical background**

Two streams of research serve as the theoretical background for this research. This first one is the Uppsala internationalization process model (IPM), a foundational theory in international business. The second one is the contextual research on Chinese

internationalization and *guanxi*. The following two sections analyze and summarize the extant literature on both.

### **2.2.1. Uppsala model of firm's internationalization**

The Uppsala model of firm's internationalization, also known as the Uppsala internationalization process model (IPM), is a prominent theoretical framework that aims to explain how firms gradually expand their international activities. Developed by Johanson and Vahlne in the 1970s, this model has become one of the most influential and widely discussed theories in international business and internationalization research. This literature review provides a comprehensive analysis of the Uppsala model's evolution, key principles, empirical evidence, criticisms, and its contemporary relevance in understanding a firm's internationalization process.

The Uppsala model originated from the pioneering work of Johanson and Vahlne in the context of Swedish firms' internationalization to other Nordic countries (Johanson & Vahlne, 1977). Initially proposed in 1977, the model has undergone several revisions and refinements over the years, that (i) added the terms “advantage package” and “advantage cycle” in response to Dunning’s Eclectic Paradigm Model (OLI) (Dunning, 1980; Johanson & Vahlne, 1990), (ii) emphasized the role of networking and learning of entrepreneurs (Johanson & Vahlne, 2003, 2006; Schweizer, Vahlne, & Johanson, 2010), (iii) coined the term “liability of outsidership” (Johanson & Vahlne, 2009) and (iv) conceptualized the network perspective for internationalization (Johanson & Vahlne, 2009; Vahlne & Johanson, 2017, 2020). The main idea of the model posited that firms' internationalization followed a gradual, incremental, and experiential process. As firms accumulated

experiential knowledge in foreign markets, their commitment and involvement in international activities increased. The updated IPM, however, stresses that networks may facilitate a lowering in liability of outsidership for MNEs, leading to a far more rapid internationalization process.

The key principles of the Uppsala model can be summarized as follows (Johanson & Vahlne, 1977, 2003, 2009):

**Psychic Distance:** The Uppsala model emphasizes the role of psychic distance, referring to cultural, linguistic, and institutional differences between the home and foreign markets. Firms tend to enter markets with lower psychic distance initially, and as they gain experience and knowledge, they gradually venture into more distant markets.

**Learning and Commitment:** The model highlights the importance of learning through experiential knowledge and the gradual commitment of resources as firms become more familiar with foreign markets. Entry modes evolve from less resource-intensive to more resource-intensive as firms gain experience and reduce uncertainty.

**Market Knowledge and Network Relationships:** The Uppsala model emphasizes the significance of market knowledge and network relationships in shaping a firm's internationalization process. Firms tend to rely on existing relationships and networks to enter new markets, facilitating information exchange and reducing market entry barriers.

Numerous empirical studies have explored and tested the Uppsala model's propositions across various industries, countries, and contexts (Coviello et al., 2017; Hutzschenreuter & Matt, 2017). While some studies have supported the model's predictions, others have shown mixed results or provided alternative perspectives on firms' internationalization patterns (Santangelo & Meyer, 2017). Empirical research has also highlighted the role of factors like firm-specific advantages, country-specific advantages, industry characteristics, and external market conditions in influencing internationalization decisions. This is especially true for the rise of the emerging market firm. (Bonaglia, Goldstein, & Mathews, 2007; Dunning, 2006; Mathews, 2006; Mathews, 2002, 2017).

Despite its widespread acceptance, the Uppsala model has not been without criticisms and limitations. Critics argue that the model may oversimplify the complexity of internationalization processes (McDougall, Shane, & Oviatt, 1994), neglecting strategic factors (Dunning, 1988), and assume decision-making rationality (Welch, Nummela, & Liesch, 2016). Additionally, the original model may not fully account for the influence of non-linear and discontinuous factors that could lead to rapid internationalization (Santangelo & Meyer, 2017).

Compared to other prominent IB theories such as the eclectic paradigm (Verbeke et al., 2008), however, the IPM seems to be particularly appropriate for this research due to its focus on firm-level processes, its inclusion of individual-level assumptions and its usefulness for managerial practice (Vahlne & Johanson, 2017; Vahlne & Johanson, 2013). Therefore, it is surprising that the IPM is seldomly used in the context of emerging market MNEs (EMNE) and especially Chinese MNEs (CMNE). We believe this is an oversight, that should be addressed. The IPM has enjoyed multiple revisions and extension over the

many years of its existence as summarized above. With the strong focus on the network perspective, it offers a very fruitful theoretical foundation for analyzing the internationalization process of EMNEs and CMNEs, who we would argue rely more on informal networks (*guanxi*) than formalized standards & procedures for internationalization than advanced market MNEs (Buckley et al., 2018; Ramamurti & Hillemann, 2018). This research aims to do exactly that by applying it in the context of Chinese firms venturing to advanced markets and assesses the role *guanxi* plays in this setting.

### **2.2.2. *Guanxi* and the internationalization of Chinese firms to advanced markets**

The expansion of Chinese firms into advanced markets has witnessed substantial growth in recent years, signifying China's emergence as a dominant global economic powerhouse (A.T. Kearney, 2018). As these firms venture into complex and competitive advanced markets, understanding the factors that influence their market selection and entry decisions becomes crucial. Analyzing the existing literature shows that much research has been published on the role of *guanxi* in the success of market expansion and operations of Western MNEs and/or Chinese firms in the context of the Chinese market (Abramson & Ai, 1999; Ahlstrom et al., 2008; Buckley et al., 2006; Gu et al., 2008; Li, 2005; Li, Poppo, & Zhou, 2008; Park & Luo, 2001; Reid & Jallat, 2006; Standifird, 2006; Standifird & Marshall, 2000; Tsang, 1998; Xin & Pearce, 1996). To better understand *guanxi* in different settings, Reid and Jallat (2006) suggest that “[t]he impact of *guanxi* on [...] internationalization may be an area of subsequent study.” (p. 50). However, in this field there has been scarce research conducted on the role of *guanxi* for Chinese

internationalization (Zhao & Hsu, 2007; Zhou et al., 2007). Also, here we believe that it is an oversight, that *guanxi* is not more prominently featured in the research of Chinese multinational enterprises' (CMNEs) internationalization. Therefore, our research aims to address this gap.

*Guanxi*, a deeply embedded cultural concept in China, has attracted significant attention for its role in shaping decision-making processes (Chen, Chen, & Huang, 2013; Du & Zhou, 2019). This literature review aims to provide a comprehensive overview of existing research on the role of *guanxi* in the market selection and entry strategies of Chinese firms in advanced markets.

*Guanxi* influences Chinese firms' internationalization strategies and behaviors. Emerging markets are different compared to developed markets, and therefore emerging market firms differ from their advanced market counterparts (Cuervo - Cazorra, 2012; Hennart, 2012; Narula, 2012; Ramamurti, 2012). To comprehend the significance of *guanxi* in decision-making processes, it is imperative to establish a clear conceptual understanding. *Guanxi* represents a web of social connections, reciprocal relationships, and social obligations embedded in Chinese culture (Chen & Glen, 2004; Park & Luo, 2001; Reid & Jallat, 2006). It facilitates trust, information exchange, and resource mobilization among individuals and organizations (Standifird & Marshall, 2000; Xin & Pearce, 1996).

*Guanxi* can be dissected into various components, including *renqing* (favor), *mianzi* (face), and *ganqing* (emotional rapport). *Renqing* reflects the obligation to reciprocate favors, *mianzi* concerns the maintenance of one's social reputation, and *ganqing* encompasses the emotional rapport and trust built within relationships (Luo, 1997b). Understanding these

components is crucial for comprehending the nuances of *guanxi* in the context of internationalization.

Existing literature shows that *guanxi* is a critical component of business operations within China, where personal relationships often form the basis of trust and cooperation. Chinese firms leverage *guanxi* networks to gain access to resources, navigate bureaucratic hurdles, and secure business opportunities (Buckley et al., 2006; Fan, 2002; Gu et al., 2008). This local perspective is crucial for understanding how Chinese companies approach internationalization. As Chinese firms expand internationally, the role of *guanxi* undergoes transformation. Researchers have examined how *guanxi* can facilitate market entry, establish partnerships, and overcome the challenges of operating in foreign environments (Chen, 2017; Du & Zhou, 2019). The duality of leveraging *guanxi* both domestically and internationally raises questions about its adaptation and effectiveness in cross-border ventures. Here, research in the context of Sino-African *guanxi* have identified its importance and application by both Chinese and African business partners (Ado, 2022). Research in the context of advanced markets, however, is still scarce and fragmented.

Market selection is a critical decision-making stage for Chinese firms aiming to expand into advanced markets. *Guanxi* influences this process by providing access to valuable market information, facilitating entry into closed networks, and enabling relationship building with local partners (Chen, 2017; Du & Zhou, 2019). *Guanxi* also impacts market identification, evaluation of market potential and attractiveness, and the formation of market entry strategies (Akoorie & Tsai, 2013; Chen & Easterby-Smith, 2008; Lianxi, Weiping, & Xueming, 2007).

Another important aspect of internationalization decisions is trust, which strongly influences the choice of entry-mode into a new market. The decision to invest in new markets often requires establishing trust-based relationships with local partners and stakeholders. Chinese *guanxi* may expedite the international trust building process and lead to successful venturing of Chinese firms in advanced markets overcoming hurdles typical for new entrants and outsiders (Chen, 2017).

### **2.3. Research gap and question**

The above analysis of the extant literature on the evolution of the Uppsala internationalization process model and the contextual research on *guanxi* and its role for internationalization points to a notable research gap concerning the specific role of Chinese *guanxi* in shaping the internationalization decisions of Chinese firms, especially in the context of advanced markets. Despite its apparent significance, no empirical study to the best of our knowledge has systematically examined how *guanxi* impacts decisions regarding international market selection and market entry mode choice among Chinese firms in the context of the IPM. This research gap is particularly pronounced given the rapid expansion of Chinese firms into advanced markets in recent years. Some industries in advanced markets now face-off against significant Chinese competition. As these Chinese firms engage in increasingly complex internationalization efforts, understanding the role of *guanxi* becomes paramount. Thus, this study seeks to address the following research question:

What role does Chinese *guanxi* play in decisions about international market selection and market entry mode among Chinese firms, and how does it influence their internationalization strategies and the process of internationalization?

This research question is grounded in the belief that *guanxi* is a pivotal element of the Chinese business environment, and its effects on internationalization strategies warrant thorough investigation. Extant research has so far not sufficiently addressed this apparent gap. By exploring this question, we aim to provide a deeper understanding of the dynamics between *guanxi* and international market entry decisions. Additionally, we seek to shed light on how *guanxi* may vary in its impact across different settings, further contributing to the literature on international business.

## **2.4. Methodology**

For this study, we adopted a multiple case study design to explore the role of *guanxi* in internationalization decisions at Chinese firms expanding to Europe. Such a qualitative research design is especially appropriate in new research area for the application, extension or development of novel, empirically valid theories (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Yin, 2003). Experiences from previous research on Chinese firms show that it is generally best to obtain sensitive information about strategies and tactics through face-to-face interviews (Ahlstrom et al., 2008). Hence, we conducted 45 semi-structured interviews with key decision-makers at 19 firms from China.

### **2.4.1. Sample**

Participating interview partners at the Chinese firms represented different management levels, including the general manager for the international market, the overseas chief sales officer and strategy, marketing, or project directors. On some occasions, we also interviewed the owner, chairman, and CEO of the firm. All our participants have the decision-making power on internationalization. Our data collection process was finished when theoretical saturation was reached, which was indicated by information redundancy (Strauss & Corbin, 1998). The final sample consists of 45 interview partners. Table 1 gives an overview of the final case profiles of this study.

*Table 1: Case profiles*

<b>No.</b>	<b>Profile</b>	<b>Industry</b>	<b>Interview partners</b>
1	Private, mid-sized firm	Construction	(1.1) CEO and Owner (1.2) General Manager, Europe
2	Private, small firm	Professional services	(2.1) Partner and Co-Founder (2.2) Partner and Co-Founder
3	Private, large firm	Telecom supplier	(3.1) General Manager, Europe (3.2) Chief Account Officer (3.3) Sales Director (3.4) Marketing Manager (3.5) Supply Chain Manager
4	State-owned, large firm	Telecom supplier	(4.1) Key Account Manager (4.2) Strategy Manager (4.3) Project Manager (4.4) Commercial Manager
5	Private, small firm	Industrial equipment	(5.1) CEO and Founder (5.2) General Manager, International Business
6	State-owned, large firm	Logistics	(6.1) General Manager, Europe
7	Private, large firm	Electrical equipment	(7.1) General Manager, Europe (7.2) Sales Manager
8	State-owned, large firm	Steel	(8.1) General Manager, Europe
9	Private, large firm	Automotive supplier	(9.1) Chairman and CEO (9.2) Chief of Staff
10	Private, small firm	Electrical equipment	(10.1) CEO and Founder

11	Private, mid-sized firm	Automation	(11.1) General Manager, International Business
12	Private, large firm	Agricultural equipment	(12.1) General Manager, International Business
13	State-owned, large firm	Steel	(13.1) General Manager, International Business
14	Private, small firm	Electrical equipment	(14.1) General Manager, International Business
15	Private, small firm	Biotechnology	(15.1) CEO and Founder
16	Private, small firm	Automation	(16.1) CEO and Founder
17	Private, small firm	Automation & Robotics	(17.1) CEO and Founder
18	State-owned, large firm	Industrial equipment	(18.1) Supervisory board member (18.2) CEO (18.3) Vice President, Strategy (18.4) Sr. Director, Post-Merger-Integration (18.5) Director, Strategy (18.6) Director, Marketing (18.7) Project Manager, Strategy (18.8) Senior Advisor
19	Private, mid-sized	Industrial equipment	(19.1) General Manager (19.2) CFO (19.3) Vice General Manager (19.4) Sr. Director, Global Brand Management (19.5) Sr. Director, Global Operations (19.6) Sales Manager (19.7) Project Manager, Strategy (19.8) Product Manager

Note: All participants have decision-making power for the international business operations of their respective Chinese firm. The revenues of the small firms are below USD 100 million; mid-sized firms have revenues ranging from USD 100 million to USD 1 billion; large firms have revenues above USD 1 billion. All Chinese firms investigated here have operations outside of China and at least one subsidiary in a European country. However, most of the mid-sized and large companies operate around the globe.

The second table provides insights into the profiles of the interview partners consulted during this research:

*Table 2: Interview partners profiles*

No.	Name	Background information
1.1	Mr. Shen	Age cluster: A3, experience category: E3, Ph.D. in Europe, previous work experience at a Chinese state ministry
1.2	Ms. Zhao	Age cluster: A3, experience category: E2, responsible for business development in Europe
2.1	Mr. Liu	Age cluster: A3, experience category: E3, M.A. and Ph.D. in Europe
2.2	Ms. Zhu	Age cluster: A3, experience category: E3, M.A. and Ph.D. in Europe
3.1	Mr. Zhang	Age cluster: A2, experience category: E2
3.2	Mr. Schmid	German, age cluster: A3, more than 10 years of prior work experience in China
3.3	Mr. Yang	Age cluster: A2, experience category: E2
3.4	Mr. Wang	Age cluster: A1, experience category: E1
3.5	Mr. Yi	Age cluster: A1, experience category: E1
4.1	Ms. Xu	Age cluster: A1, experience category: E1
4.2	Ms. Zao	Age cluster: A2, experience category: E1
4.3	Mr. Han	Age cluster: A1, experience category: E1
4.4	Ms. Huang	Age cluster: A1, experience category: E1
5.1	Mr. Yuan sr.	Age cluster: A3, experience category: E1
5.2	Mr. Yuan jr.	Age cluster: A1, experience category: E1
6.1	Mr. Zhou	Age cluster: A3, experience category: E3
7.1	Mr. Frei	German, age cluster: A2, prior experience with Chinese firms as suppliers
7.2	Mr. Braun	German, age cluster: A2, no prior experience with Chinese firms
8.1	Mr. Meng	Age cluster: A2, experience category: E2
9.1	Mr. Chen	Age cluster: A2, experience category: E3
9.2	Ms. Yu	Age cluster: A1, experience category: E3
10.1	Mr. Wu	Age cluster: A2, experience category: E1
11.1	Mr. Lu	Age cluster: A2, experience category: E2
12.1	Mr. Feng	Age cluster: A2, experience category: E2
13.1	Mr. Wei	Age cluster: A2, experience category: E1
14.1	Mr. Lei	Age cluster: A1, experience category: E1
15.1	Mr. Peng	Age cluster: A2, experience category: E2
16.1	Mr. Xue	Age cluster: A2, experience category: E2
17.1	Mr. Deng	Age cluster: A2, experience category: E2
18.1	Mr. Ren	Age cluster: A3, experience category: E2
18.2	Mr. Lun	Age cluster: A2, experience category: E2
18.3	Mr. Kurz	Austrian, age cluster: A2, prior experience with Chinese firms only as suppliers

18.4	Mr. Reif	German, age cluster: A2, no prior experience with Chinese firms
18.5	Mr. Lee	Age cluster: A1, experience category: E3, educated in Europe
18.6	Mr. Schwaiger	German, age cluster: A1, no prior experience with Chinese firms
18.7	Ms. Pau	Age cluster: A1, experience category: E1, post-graduate education in Europe
18.8	Mr. Roedl	German, age cluster: A2, several years' experience as management consultant in China
19.1	Mr. Lang	Age cluster: A2, experience category: E2, Ph.D. in Australia
19.2	Mr. Tse	Age cluster: A2, experience category: E2, Hong Kong Chinese
19.3	Mr. Dang	German citizen of Chinese descent, age cluster: A2, experience category: E3, education in Europe
19.4	Mr. Ricci	Italian, Age cluster: A2, no prior experience with Chinese firms
19.5	Mr. Maier	German, age cluster: A3, multiple several years' experience as project manager in China
19.6	Mr. Xi	Age cluster: A1, experience category: E1
19.7	Mr. Hu	Age cluster: A1, experience category: E1
19.8	Mr. Zhi	Age cluster: A1, experience category: E1

Note: Some participants asked for anonymity; hence, all names listed above are pseudonyms. The range of the age clusters are A1: 25 – 40, A2: 41 – 55 and A3: 55+ years. The years of international experiences are categorized into: E1: 0 – 5, E2: 5 – 15 and E3: 15+ years.

#### 2.4.2. Data Collection

For our research, we relied on in-depth interviews with decision-makers (Flint, Woodruff, & Gardial, 2002). Those interviews were semi-structured in order to let the conversation freely develop according to the answers of the informants (Mäkelä & Maula, 2005). On average each interview lasted 75 minutes, with the shortest interview at 20 minutes and the longest at 150 minutes. They were audio recorded in 39 of the 45 occasions. In 6 occasions the interview partner refused the audio recording and notes were taken instead. The interviews were conducted mostly in the native language (Chinese, English, German) of

the participant as previous researchers suggest that this allows participants to express ideas more freely and accurately (Guo & Miller, 2010). In a handful cases, where we were not able to speak the native language of the interviewee, English was used.

An interview guideline and an overall description of the research were sent to the participants prior to the interview. The interviews were designed to learn as much as possible about a participant's perceptions, observations, and thoughts related to her or his firm's internationalization to Europe. After the interview, we sent the verbatim transcripts to the interviewees for confirmation and revision.

We supplemented the interviews with several secondary sources to increase the reliability and validity of the data (Miles & Huberman, 1994). For the companies, we analyzed internet/ press information, annual reports, company biographies, and other communication material to become familiar with the company and its industry. These secondary data sources complemented and supported our insights gained through primary data sources.

### **2.4.3. Data Analysis**

For the qualitative data analysis, we used comparative analysis to discover theory that can be derived from the empirical data. The more than 800 pages of transcribed data was analyzed following the open-coding process (Strauss & Corbin, 1998). We reviewed the interview transcripts and the secondary sources repeatedly to understand the context of the sources. Codes were identified based on their frequency and contextual significance. The codes were then put together, and their common properties could be found when referring to the context of the transcript. These properties of linked codes provided evidence of

several mutually exclusive categories from the data. Finally, linkages between categories were examined. The entire process of coding and interpretations was facilitated by using qualitative data analysis software.

#### 2.4.4. Trustworthiness and Transparency

We assessed trustworthiness by applying the set of nine criteria put together by Flint et al. (2002) that combines two overlapping sets of criteria: one set from interpretive research (credibility, transferability, dependability, confirmability, and integrity) and one set from grounded theory (fit, understanding, generality, and control). Table 3 shows how we addressed each criterion in detail.

*Table 3: Criteria for trustworthiness and transparency*

<b>Criteria</b>	<b>Addressed in this research</b>
<b>Credibility</b> Extent to which the results appear to be acceptable representations of the data	Interviews were conducted with one interviewer and were possible with two interviewers. Interviews and transcripts were done by native speakers.
<b>Transferability</b> Extent to which the findings from one study in one context apply to other contexts	Interviews were conducted only with key informants at the HQ of Chinese firms and/ or European subsidiaries. Theoretical concepts were represented by data from at least the majority of the participants.
<b>Dependability</b> Extent to which the findings are unique to time and place	Participants reflected on past and recent experiences in Europe. Many compared it to experiences they had in China and some also to other markets, such as the United States, Latin America, Africa, and India.
<b>Confirmability</b> Extent to which interpretations are the results of the participants and the phenomenon	Two China-based academic members and one Chinese practitioner acted continuously as auditor and sparring partner for our research, which helped to expand and refine the interpretations.
<b>Integrity</b> Extent to which interpretations result from misinformation or evasion of participant	Interviews were conducted in a professional way. Every interview started with a clear definition of the topic and easy-to-answer warm-up questions. Strict anonymity and confidentiality were promised to the participants, resulting in no evasion of the topic.

<b>Fit</b> Extent to which findings fit with the substantive area under investigation	Concept of <i>guanxi</i> was analyzed in a new setting and captured the dynamics and complexities of the data. Framework of the internationalization process model served as guiding structure for analysis.
<b>Understanding</b> Extent to which participants buy into the results as representations of their world	Transcripts were sent to participants for verification. Summary of the results were presented and discussed with some participants, one Chinese practitioner, and two China-based research colleagues.
<b>Generality</b> Extent to which findings discover multiple aspects of the phenomenon	Interviews were of sufficient length and openness to capture multiple aspects of the phenomenon. Experience and background of interviewers facilitated the exploration of multiple aspects of <i>guanxi</i> .
<b>Control</b> Extent to which organizations can influence aspects of the theory	Participants have direct control of their <i>guanxi</i> and had influence over decisions for internationalization, in particular market selection, entry mode and resource commitment

## 2.5. Results

We present our results from the qualitative data analysis in this section. We are using the following three overarching themes to categorize our findings and develop propositions for the role of *guanxi* for: (1) overcoming psychic distance, (2) facilitating market commitment decisions, and (3) capabilities-building.

### 2.5.1. Role of *guanxi* for overcoming psychic distance

We explored within our cases the decision-making process for selecting the first country to expand to in their internationalization to Europe. Here we came across a link between inward and outward internationalization. In line with the results of Hertenstein et al. (2017), we found that existing or past supplier-customer, joint-venture and other business network relationship significantly influence the decision-making process about internationalization.

Hence, the insider position within international business networks plays an important role for selecting a country (Johanson & Vahlne, 2009). This can be explained by the *guanxi* established between the business partners. For example, our case 6 had a historic joint-venture with a German company and consequently the first European office was established in Hamburg, Germany. Mr. Zhou explained this link:

*“Our entry and development into the European market was a long process for [our company]. [Our company] was founded in the 60s. In the 70s we shipped single cargos to Europe. [...] In the 80s we started to cooperate with a German company. They were our business partners and acted as our agent in Europe. We knew the company and the best is to work together with a familiar partner. [...] We formed a joint venture with the German partner but ended up acquiring 100% of the company in the 90s. [...] With our experience with the German partner, it was logical to open our first permanent office in Hamburg. After that, we quickly expanded to other European countries.” (Case 6, Interview partner 6.1)*

Another example for supplier-customer connection is Case 9 – the Chinese supplier recently opened a subsidiary in Germany to be close to its German customer, who the company had been supplying for many years in China. However, in addition to business network ties, *guanxi* appears to be important for country selection. The theme of *guanxi* emerged in more than half of our cases (eleven of 19) as an influencing factor for the decision about markets. Ten of those 11 firms mentioned that they were not part of a business network that covers both regions, China and Europe. Six of those firms initially had difficulties finding the right location for expansion to Europe. Mr. Lu, General

Manager for International Business at a private automation company, put the challenge as follows:

*“We didn’t have any business relationship with Europe, but our company had the goal of becoming a global firm. [...] I spent quite a lot of time in Europe to find the location of our first subsidiary but found it difficult to make a decision due to the diversity and complexity of the European countries. [...] We first used objective criteria through market research – looking at things such as market size and growth potential. However, those did not convince us. [...] In comparison other emerging markets like India looked way more promising than European countries.” (Case 11; Interview partner 11.1)*

Personal network ties and a trusting relationship, i.e. *guanxi* of the decision-makers, appear to play an important role in this situation in facilitating the decision for a country. Mr. Lu went on to explain:

*“Eventually, a person within the personal network of our CEO helped us. He is a German citizen of Chinese origin. He introduced us to [a German company]. We looked very carefully at this opportunity. We ended up choosing Germany as our location for our first office in Europe. [...] Guanxi is really important and helpful in this matter. [This person] previously worked for Siemens and has helped our company in Singapore before. He is trusted by our CEO and his personal recommendation matters.” (Case 11; Interview partner 11.1)*

The reason why *guanxi* influences the country selection in absence of an insider position in an international business network, can be found in two of its benefits for internationalization. These are (i) opportunity creation and (ii) verified information. Through *guanxi* the decision-makers of Chinese firms are made aware of

internationalization opportunities in Europe. They also trust the source of the information more due to their existing personal relationship ties. Those ties allow for greater accountability, as the person providing the recommendation is backing it up with his personal credibility and reputation. Also, it builds on extensive social capital from the past, as well as acts as building blocks for more social capital between the business partners with *guanxi* in the future. What was remarkable in our case 11, was also that the trust in a person even went above facts and figures. The recommendation of a person with which the CEO has *guanxi* with, played a more important role than market analysis. Another similar example is case 10; Mr. Wu explained why he chose Sweden as the first European hub for his company:

*“I completed a training program in Sweden. In this program, we interned at several companies, and I met [my future European business partner] during one of those stations. He started his career as a salesperson [in my industry]. After some years he became a purchasing manager, got 30% shareholding of the company he worked for, and eventually purchased the entire company from the original owner. We got to know each other very well and formed great guanxi. We started to collaborate in China. During this time our families met many times in China and Europe. He then proposed the idea to me to open a distribution and service center in Sweden. I agreed immediately. With that, my business in Europe came into operation and works well till today. [...] He manages guanxi like a Chinese person would. We trust each other very much. [...] Now, I spend a lot more time managing our US subsidiary and very little time on Europe. Because I know I can trust him.” (Case 10; Interview partner 10.1)*

This finding is similar to what Ado (2022) described for African business partners adopting Chinese *guanxi* practices after many years of professional and personal interaction with Chinese business partners.

To summarize our findings about market selection of Chinese firms we pose the following proposition:

**Proposition 1:** In absence of an insider position within an international business network, *guanxi* of the decision-maker strongly influences the market selection decision by providing opportunities and verified information.

### **2.5.2. Role of *guanxi* for market commitment**

The second topic that emerged from our data is the effect of *guanxi* on market commitment. The IPM suggests that market commitment increases gradually with increased knowledge of the market and improved capabilities. Based on the qualitative analysis of our cases, we argue that *guanxi* plays a strong mediating role for market knowledge. One theme that emerged from 13 of our 19 cases is that *guanxi* has a twofold influence on market knowledge. Prior to further elaborating on this finding, an important distinction needs to be made for three different levels of *guanxi* (Fu et al., 2006): (i) *shengren guanxi* are ties with people you don't know well or with whom you have a yet-to-discover a tie; (ii) *shuren guanxi* are ties with people you know or are connected to you by an already identified tie (i.e., schoolmates) known to both; and (iii) *qinren guanxi* are ties with people with whom you have a bond by blood or connected by family or marriage.

Firstly, *shengren guanxi* played an important role for collecting and assessing market information. We would like to use the example of Mr. Yuan jr., who stayed six months in Austria, to illustrate this point:

*“Once we committed to setting-up a representative office in Vienna, it was very important for me to get connected with the Chinese diaspora in the country. I wanted to connect with as many Chinese people in Austria as possible to understand every facet of the country that may be relevant for my decision to further invest here. First, I used WeChat and personal recommendations to get connected. I met with a lot of people through these channels, invited them to dinners and asked a lot of questions. I wanted to understand everything about Austria and its neighboring countries. Where are business opportunities, how does politics work here, how does Marketing work, etc. And not just business, I also asked about good schools, universities, quality of life, etc. [...] This gave me a good general understanding of the country. But, then my approach to guanxi became more targeted. I needed to go outside the Chinese circle and connect with locals in my industry. It is also important to understand what the competition is doing. Only after this step, I had the confidence to invest further [in this market]. This guanxi is important for me to assess the potential of the market and understand opportunities. Without it, it would be harder for me to decide about investments. Once I understand the opportunities, I can make decisions about further expansion.” (Case 5, interview partner 5.2)*

The example of case 5, illustrates the importance of *shengren guanxi* as the first step in market commitment serving primarily for the purpose of information gathering and general opportunity assessment.

The second theme, we discovered around *shengren guanxi* applies to competitive strategy, where *shengren guanxi* enables a certain degree of insights into strategies of competitors and resulting in mimicking behavior of Chinese firms. We use the example of case 3 and the words of Mr. Zhang to illustrate this point:

*“We know that [main Chinese competitor] wanted to establish a sales & service center at [city in the country] to serve [local customer] better. We heard about this from our guanxi network. We cannot let [our main Chinese competitor] have an advantage on us here. So, it was clear to me that we had to do a similar move to even the playing field.”*

When asked to further elaborate on the specific role of *guanxi*, Mr. Zhang explained:

*“Without our guanxi, we would not know about the move by [competitor]. Here it is not necessary to have very deep and strong guanxi, but to get information from many different guanxi networks. On the flip side, I’m of course also aware that the guanxi network may share some of my information to my competition. But, I believe, the positives outweigh the negatives. Without my guanxi network it would be hard for me to get a grasp on the developments in a new market and that can be very dangerous.” (Case 3; interview partner 3.1)*

Based on our cases, we therefore argue the following two propositions:

**Proposition 2a:** *Shengren guanxi*, i.e., loose personal network ties, plays an important role for information gathering and opportunity assessment.

**Proposition 2b:** Specific to international competitive strategy, *shengren guanxi* provides information about market expansion strategies of Chinese competitors, resulting in mimicking moves of Chinese firms.

For the actual decision to invest resources in a market, *shuren guanxi*, i.e. deeper and stronger personal network ties, is the second piece of the puzzle for market commitment according to our data. As discussed above, *shengren guanxi* is instrumental for Chinese firms to collect information about markets, opportunities, and competitive actions; the actual decision for resource commitment in the form of investments, hiring of staff, etc., however, is more strongly influenced by *shuren guanxi*. To illustrate this point, we use the example of case 16 and the words of Mr. Xue:

*“My European business partner has become a very close friend to our family. His family has visited us in China many times. His two sons are also learning Chinese. We have established very close guanxi over the years to the extent that I fully trust him, and he fully trusts me [...]. He is one of the main reasons why I invested in Europe and continued to hire staff here. I had plenty of opportunities to invest in other regions. Countries like Russia and India are more dynamic markets, but I don't have someone there I trust as much as my European business partner. I'm based in China and there can always be hurdles that appear in foreign markets. This is when having close guanxi with someone who can successfully maneuver in the foreign market makes all the difference.” (Case 16, interview partner 16.1)*

We saw a similar pattern in 10 of our 19 cases. Another example was case 9, where the Chinese firms entered the German market with one representative, who helped to gather

information and knowledge about market opportunities, but waited one year before the decision was made to invest in a German subsidiary with office and staff. This happened because the Chairman established *shuren guanxi* with one German citizen of Chinese origin, who he personally trusted to take on the responsibility of market expansion in Europe. Without this person he would have hesitated to commit more resources to the market in which the company did not have a steady book of business yet. However, the trust in one person was sufficient to commit more resources to capturing the opportunities of that overseas market.

Hence, we stipulate the following proposition:

**Proposition 3:** *Shuren guanxi* can serve as a substitute, enabling resource commitments to an advanced market despite the absence of an insider position, i.e., steady book of business.

In our 19 cases, we did not discover any emerging themes around *qinren guanxi*, the most intensive form of *guanxi*, as there was only one case, where the protagonist had *qinren guanxi* in Europe at the time of making decisions about market commitment. Therefore, no proposition can be made in this research about said concept.

### **2.5.3. Role of *guanxi* for capabilities building**

On one hand, Chinese firms expand to advanced markets to exploit their country-specific advantage (e.g., labor cost advantage, access to state-subsidized financing) or in some cases firm-specific advantage (e.g., access to better and cheaper technology), however, on the other hand, equally important is the desire to build up new capabilities (Kotabe & Kothari,

2016). The classical stages models derived from the IPM may not be sufficient to explain the process of experiential learning and capabilities building that eventually drives increased commitment of emerging market firms in advanced markets over time (Meyer & Thaijongrak, 2013). Therefore, we explore the theme of capabilities building in detail in our data.

Here, we discovered that the motive of capability building appeared in seventeen of our 19 cases studied. Expansion to Europe is not only driven by market motives, but also by the desire to seek new capabilities. We may explain this by the fact that the Chinese home market is large and highly attractive, while the European market is perceived as fragmented and difficult to penetrate. Mr. Feng from a large agricultural equipment company elaborated when asked about his company's motive for expanding to Europe:

*“It's not so much about access to a new market. China is already a very large market. Enough for us to grow in the future. From the market perspective we don't need to be in Europe. [...] Europe is also more complex market than China due to its many small countries with their own particularities and languages. More difficult for business development.” (Case 12; Interview partner 12.1)*

For this research, we defined capability-building as “acquiring a desired management or technical capability previously not possessed through learning in the new market”. The companies we analyzed sought to improve their management practices, international experience, marketing, engineering and technical processes and quality standards. When asked about their motivation to expand to Europe, Mr. Yuan jr., from a private mid-sized firm, described it as:

*“We want to learn from European companies. We have still catch-up to do. Competition in China is very fierce - we compete against Western multinationals, state-owned enterprises, and private firms. We need the best management practices, the best engineering processes, and the best tools to stay ahead. Especially in management, Chinese firms can do a lot better.” (Case 5; Interview partner 5.2)*

The acquisition of those capabilities can be fast-tracked through mergers & acquisitions. Our case 18 expanded to Europe to acquire technology, brands, existing distribution and service networks, plants and offices, and experienced human capital with the belief that those assets will not only help them establish a presence in the European market, but more importantly help them to better compete in China as well as to expand to other developed markets such as the USA. Mr. Kurz, who is working as an executive for the European subsidiary of a Chinese state-owned enterprise, stated:

*“When [the state-owned company] acquired us [i.e. German industrial equipment manufacturer] a few years ago they knew very well for what purpose. They needed our [company specific] technology to better compete in the Chinese market. So far, the leading players in [this technology segment] are Japanese and European players. There are some Chinese players, but they are still years behind. By acquiring us they want to consolidate their position in China. We now do a lot of R&D in Germany just for the Chinese market [...] Our brand is well established and respected. We have customers not only in Europe, but also in the USA. [The state-owned company] tried to expand to the US with their own brand but was not successful. They will now shift all their efforts in supporting [the German industrial equipment brand] grow in the US. (Case 18; Interview partner 18.3)*

Particularly in this context of Chinese firms acquiring European firms, we discovered the intricate role of *guanxi* for capabilities-building. Mr. Ren from a large state-owned enterprise put it this way:

*“It’s about spreading the Chinese culture. This is one of the objectives of the Chinese government for the internationalization of their [state-owned] companies. With the increasing importance of China on the world stage, it becomes even more important that the Chinese language and culture, as well as the Chinese way of doing business becomes more widely spread. Here, we [the state-owned enterprises] have to do the work. The European partners need to learn Chinese and our culture. They need to understand guanxi. The same way as we learn from their technology and style of management.” (Case 18; Interview partner 18.1)*

At our case 18, the Chinese state-owned parent company introduced mandatory Chinese cultural and language classes for the European executives (top- and middle management) of the acquired German company. Those classes were complemented with organized trips to China, which included not just visits to the locations of the company, but also visits to Chinese cultural sites, such as the birthplace of Confucius in the province of Shandong. The executives from the acquired German company were introduced to the Chinese way of doing business with particular emphasis on *guanxi*.

We use the words of Mr. Schwaiger to further illustrate this point:

*“They hired an international management consultant, who explained to us how Chinese conduct business and their way of thinking. He introduced us to concepts such as*

*guanxi, mianzi and renqing. The Chinese leadership stressed the fact that with this new partnership, learning is required from both sides – they learn the hard skills, such as engineering and brand management from us and we learn Chinese and Chinese way of doing business from them. This way both companies can be even more successful.” (Case 18; Interview partner 18.6)*

A similar pattern was also discovered with case 7 and case 19, which were also equity partnerships between Chinese and European firms. The objective is to have European managers that are well-versed in the Chinese way of doing business including *guanxi* to eventually facilitate the learning and building-up of new capabilities of the Chinese side. The concept of cross-cultural transferability of *guanxi* was also identified in the study of African managers (Ado, 2022).

In summary, we postulate the following proposition on the role of *guanxi* for capability-building.

**Proposition 4:** In the specific context of Chinese and European equity partnerships, *guanxi* plays a supporting role to enable faster and easier capability-building of the Chinese partner.

## **2.6. Discussion and conclusions**

This research holds substantial significance for both academia and practitioners. Academically, it contributes to the existing body of literature on internationalization

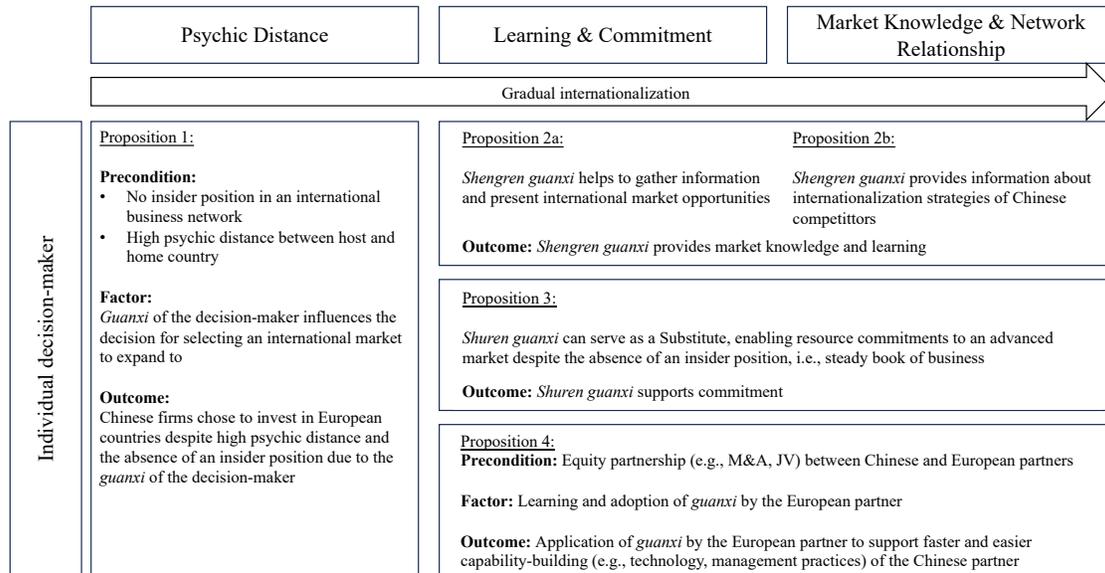
strategies by filling the research gap related to *guanxi* and Chinese MNEs (CMNE) in the theoretical framework of the IPM. To date, there has been great interest in Chinese MNEs, with hundreds of articles published in leading IB journals. At a conceptual level, it is suggested new theory may be required to explain Chinese MNE activities. Our research shows that the IPM may also be more relevant to explaining CMNEs than previously recognized. This is because the updated IPM turns our attention to focus strongly on ‘networks’. The evolutionary process element of the IPM is also very much in line with the catching-up process that CMNE go through when expanding to advanced markets. As a foundational theory it also gives great latitude in the application of its core principles, so that when used in the context of CMNEs, we can extend our knowledge of how cultural and relational factors shape the internationalization choices of Chinese firms, providing a nuanced understanding of the interplay between culture and strategic choices. Practically, the findings of this study can offer valuable insights to Chinese firms aiming to expand their global footprint, as well as foreign firms seeking to collaborate with or compete against Chinese counterparts.

The insights generated from our data answers the initial research questions posed about “What role does Chinese *guanxi* play in decisions about international market selection and market entry mode among Chinese firms, and how does it influence their internationalization strategies and the process of internationalization?”. It opens up the black box and maps each component of the IPM to effect of *guanxi* in the overall process.

To summarize, the findings of our research are illustrated in figure 1 and mapped to the key components of the internationalization process model.

**Figure 1: Summary of propositions mapped to the IPM**

**Research Question:** What role does Chinese *guanxi* play in decisions about international market selection and market entry mode among Chinese firms, and how does it influence their internationalization strategies and the process of internationalization?



Our research focused on the individual decision-maker of the Chinese firms venturing to Europe. It helps to add more flavor and nuance to the internationalization process model.

Firstly, when zooming in on the concept of **psychic distance**, we see that *guanxi* is an important factor for country selection. Our cases suggest, it may lead to outcomes that are contrary to the predictions of the early internationalization process model, but consistent with the updated ‘network’ view of the IPM (Johanson & Vahlne, 2009). The updated IPM network perspective highlights how an MNE may make the move to a seemingly distant market (culturally, institutionally etc.) in a rapid fashion (contrary to the original IPM). We found that the Chinese firm may select a country as their first host market with high psychic distance. The main reason for this outcome, our interviews revealed, relates to the *guanxi* of the Chinese decision-maker. Chinese MNEs typically rely less on formal procedures and standards than their Western counterparts as they are not yet in mature development state (Ramamurti & Hillemann, 2018; Xin & Pearce, 1996). In this specific context, the personal

opinion of the Chinese individual at the top of the CMNEs can easily dictate location decisions and thereby mitigate the uncertainties from high psychic distance. We featured this theme with the mentioned case companies 6, 9, 10, and 11 in the previous results section, however, this phenomenon was also discovered at additional seven companies of our sample, thereby making it the majority of our 19 case studies, where this theme emerged from the data.

Secondly, when it comes to **learning and commitment**, we see multiple effects of *guanxi* on this concept. In our cases, we discovered that *shengren guanxi* is an important lever for learning, while *shuren guanxi* is required for the eventual deeper commitment to the host country in form of further investments. Also, here individuals play the key role as they either actively seek new *guanxi* in the host country or rely on *guanxi* to support their investment decision. This finding adds a lot of nuance and detail to a key component of the IPM. It supports the component of trust that the IPM postulates as necessary requirement for learning and commitment (Johanson & Vahlne, 1977, 2003; Vahlne & Johanson, 2017). In our case, *guanxi* can be seen as equivalent to trust. Here, *shengren guanxi*, a weaker trust level may be sufficient for learning, but for actual commitment, *shuren guanxi* with strong levels of trust is required. Our research also answers the call of Vahlne and Johanson (2020) by bringing the psychological characteristics of decision-makers to the forefront; in our case these being the individual preference of Chinese leaders in CMNEs and thereby adding more realism and nuance to the IPM. Previous research on *guanxi* has confirmed the importance of it for learning and making commitment decisions in the Chinese market context (Chen et al., 2013; Gu et al., 2008; Standifird & Marshall, 2000; Xin & Pearce,

1996), but we believe our research provides more decomposition to the concept and is only one doing this in the setting of internationalization to advanced markets.

Thirdly, regarding **market knowledge & network relationship**, we came across two insights from our cases. *Shengren guanxi* helped the management of the Chinese firm to learn about market opportunities, the political and social landscape of the host country, as well as competitive moves from Chinese competition. Specifically for network relationship, we discovered in the specific cases of Chinese firms owning an equity stake in a European firm, that *guanxi* is used to cultivate Europeans to the Chinese way of doing business and thereby helping the Chinese parent company with easier absorption of technological and management know-how of the European partner. Again here, are adding a lot more nuanced insights into the actual conduct of CMNEs abroad and thereby answering the call for dedicated research on the CMNE context (Ramamurti & Hillemann, 2018) as well as the added realism (Vahlne & Johanson, 2020) and focus on the individual decision-maker (Schweizer & Vahlne, 2022) to the IPM.

### **2.6.1. Theoretical implications**

Academically, it contributes to the existing body of literature on internationalization strategies by filling the research gap related to *guanxi*. It extends our knowledge of how cultural and relational factors shape the internationalization choices of Chinese firms, providing a nuanced understanding of the interplay between culture and business strategy.

Our study is one of the few to offer insights from data from Chinese firms expanding into advanced markets. It sheds light on Chinese management practices and its decision-making

about international markets, while at the same time enriching existing international business theory (Buckley et al., 2018). We would also argue that it creates boundary conditions for classical paradigm (Hernandez & Guillén, 2018), in our case the Uppsala internationalization process model, by applying and extending it in the context of multi-case-study research from 45 decision-makers from 19 Chinese firms with operations in Europe. Our research also zooms in on the individual, which Schweizer and Vahlne (2022) argue in their conceptual paper, may explain for non-linear internationalization and disruptive outcomes. In line with this, our empirical research adds more realism to the internationalization process model by detailing how personal *guanxi* of the decision-maker may lead to investment in markets with high psychic distance and dissecting the cause-and-effect of *shuren-* and *shengren* *guanxi* on commitment. In addition, we bridge the literature on Emerging Economy firms' internationalization and the Uppsala internationalization process model by contextualizing the important aspect of market selection, commitment, and capability-building from the perspective of the Chinese firm. Also, in terms of methodology we used a qualitative approach, which Vahlne and Johanson (2017), argue is preferred over quantitative research methods for the internationalization process model.

Lastly, this work adds to the stream of research on *guanxi* and social network ties in general. It is one of the first papers to investigate the role of *guanxi* of Chinese firms' for making strategic decisions about international markets and commitments. Our research considers the characteristics of *guanxi* and uses the extant research to dissect *guanxi* into different elements in order to apply it in the different cultural context of Europe. Hence, our research offers a first step to take a dynamic view on a concept, which results from

Chinese culture but is taken into modern business environment. Our findings provide insights into which elements of *guanxi* influence strategic internationalization decisions and give propositions about their impact and importance.

### **2.6.2. Managerial implications**

Practically, the findings of this study offer valuable insights to Chinese firms aiming to expand their global footprint, as well as foreign firms seeking to collaborate with or compete against Chinese counterparts.

The propositions we have derived in this research describe and explain how *guanxi* influences strategic decisions of Chinese firms when they venture to advanced markets. Emerging market firms can understand from this research their own bias when going international. We saw a strong influence of the *guanxi* of individual decision-makers in determining investments of multiple millions. This may not be the best approach for expanding to advanced markets, which typically enjoy a transparent legal system and stable business environment. To include more objective data and analysis in the decision-making process of internationalization, the emerging market firms could, for example, implement a stage-gate process that ensure objective data is used along each gate in addition to home country-specific elements of doing business such as *guanxi*.

Our research results also provide important insights for advanced country firms. Established Western firms need a clear picture of how *guanxi* influences the strategies of Chinese newcomer firms to be able to react accordingly to the new challenges. As we showed in our data, *guanxi* may also lead to mimicking behavior in the competitive

strategies of Chinese firms. Western competitors may see themselves pushed out of the market as they suddenly face many new competitors appear to be singing from the same hymn book. This entry of new players to the advanced market will result in greater competition but also larger benefits for the customer. Western companies need to understand their strengths relative to the newcomers and develop strategies to defend their castle.

### **2.6.3. Limitations and future research**

The propositions of this research and its limitations suggest some fruitful directions for future research.

Firstly, in this research we used the internationalization process model as the mainstream theoretical grounding for our *guanxi* research. Further studies could apply the same idea to other classical theories such as the eclectic paradigm to test how the concept of *guanxi* can be applied and help extend the existing theories. Even though the IPM appears to be particularly suitable for the context of *guanxi* due to its network perspective, it does not preclude applying other mainstream IB theory to context of *guanxi*. On contrary, due to the complexity and multifaceted nuances of *guanxi* there are many other aspects of *guanxi* that be better suited for other theories. Through the network perspective of the IPM, the focus was particularly strong on the process aspects of *guanxi*.

Secondly, this research was conducted with Chinese firms and their decision-makers in focus. A similar study could be conducted with individuals from other emerging markets at the focal point of analysis. This could be combined with shifting the focus to emerging

markets instead of advanced markets. It would be worthwhile to explore if similar results can be found in those settings. The aspect of culture also played an important role in our findings. Hence, it would be worthwhile to investigate how different cultural settings (e.g. high-context vs. low-context cultures) change the outcome of our research.

Finally, in terms of methodology, a quantitative or mixed-method approach would be useful to test the propositions derived in this paper. Also, a longitudinal study could discover the intricacies of a long-term evolution of *guanxi* in an international setting. Even though a theoretical sampling approach was applied with our data, more empirical research is needed to further validate the propositions of our research.

### 3. The role of *guanxi* for overcoming liability of outsidership

#### 3.1. Introduction

Chinese outward foreign direct investment (FDI) has increased strongly in recent years and is expected to continue its steep growth (Buckley et al., 2007; Li, 2009a; Luo, Xue, & Han, 2010). Previous research has focused on reasons for the outward internationalization on both the environment-specific level (Buckley et al., 2007; Cardoza & Fornes, 2009; Deng, 2009; Morck et al., 2008; Witt & Lewin, 2007; Yang, Jiang, Kang, & Ke, 2009) and the firm-specific level (Alon, Yeheskel, Lerner, & Zhang, 2013; Banalieva & Sarathy, 2011; Chen, 2006; Deng, 2003; 2004, 2009; Li, 2009b; Liu, Xiao, & Huang, 2008; Morck et al., 2008). Although first insights about the internationalization motives, modes, and market-entry strategies of Chinese firms have been gained, little empirical research has been conducted on *how* Chinese firms actually operate in overseas markets (Bonaglia et al., 2007; Child & Rodrigues, 2005; Hu & Wang, 2009; Kaufmann & Roesch, 2012; Liu & Woywode, 2013). This is especially true for the operations of Chinese firms in developed economies (Ge & Ding, 2008).

Europe is increasingly becoming a popular destination for outward FDI by Chinese firms (Li, 2009b). The Chinese investment stock in the European Union had reached nearly 27 bn EUR in 2012 (FT, 2014). Germany and the UK are ranked in the Top 10 destinations for China's outward FDI in 2013 (EY, 2015). However, Chinese firms are newcomers to the European market and therefore outsiders to the established European business networks (Sohm, Linke, & Klossek, 2009). On the other hand, Chinese firms are well known for their ability to establish, manage and exploit personal social network ties for the companies'

strategic purposes (Chai & Rhee, 2010; Gu et al., 2008). We raised the following question: What role does *guanxi* play for Chinese firms in overcoming their outsidership and in establishing trust in European business networks?

To answer this question, we use the recently revised network-based Uppsala internationalization process model (Johanson & Vahlne, 2009) and extant research on *guanxi* as the theoretical guiding part; seventeen Chinese firms in a Business-to-Business (B2B) context in Europe form the empirical basis. The contribution of this paper is threefold: (1) It is one of the first studies that applies and extends the recent Uppsala internationalization process model; (2) it contributes to the theoretical concept of Liability of Outsidership by applying it in the context of emerging economy firms; and (3) it expands the stream of research on *guanxi* and trust by outlining the difference in sequence and function when moving to developed countries.

Our research represents what Whetten (2009) referred to as “the cross-context approach to foster context sensitive theorizing” (p. 30). We explain the role of *guanxi* for Chinese firms in their effort to establish an insider position in Europe by contextualizing existing theories and concepts (Whetten, 2009). In addition, we develop new insights into familiar topics such as the Uppsala internationalization process model of 2009 and the extant research on *guanxi* (Whetten, 2009). Therefore, we contribute to the general theory development by “theorizing the findings from the case analysis” (Guo & Miller, 2010); (p. 268).

The remainder of this article is organized into five sections: (1) the overview of the theoretical background; (2) the description of the methodology used; (3) the presentation

of the results; (4) the discussion and conclusions; and (5) implications for future research and management.

### **3.2. Theoretical background**

Our theoretical background is based on the revised Uppsala internationalization process model and the extant research on *guanxi*. Both concepts are introduced in this section.

#### **3.2.1. Uppsala internationalization process model of 2009**

Johanson and Vahlne (1977) argue in their original Uppsala internationalization process model that internationalization is a result of progressive reduction of psychic distance through managers' gradual accumulation of experiential knowledge of foreign markets. In their recently revised internationalization process model, Johanson & Vahlne (2009) modified their view toward a network perspective of the firm. Firms' business environments are viewed as webs of relationships. In the 2009 model, the authors propose that a firm can make use of its existing business relationships to identify and exploit opportunities that may lead to expansion in foreign markets. When a firm ventures into a new market where it has no existing connections, "Outsidership" in relation to the relevant network is seen as the key reason for difficulties in establishing a footprint there. (Johanson & Vahlne) call this phenomenon the "Liability of Outsidership" (LoO). They propose that this liability can be overcome through a learning process after which building of trust and commitment can begin. With that the firm becomes an insider in the new business network and thus, overcomes the LoO (Johanson & Vahlne, 2009). In the particular case of Chinese

firms, ethnic minorities abroad may reduce distance and bridge or mediate between the host-country business network and the Chinese firm. The empirical research is inconclusive with divergent results (Blomkvist & Drogendijk, 2013; Ellis, 2011). Recent research also confirm that the applicability of the current Uppsala process model to acquisitions by emerging market firms in developed markets (Rabbiosi, Elia, & Bertoni, 2012).

The revised Uppsala process model, and with it a relationship-based view of internationalization, seems well suited as a theoretical starting point for answering our research question.

### **3.2.2. Concept of *guanxi***

Scholars who have extensively studied the phenomenon in the Chinese business context define *guanxi* (关系) as a cultural characteristic of Chinese society with its roots in the Chinese Confucian philosophy (Ahlstrom et al., 2008; Buckley et al., 2006; Li et al., 2008; Luo et al., 2011; Park & Luo, 2001; Reid & Jallat, 2006; Standifird & Marshall, 2000; Xin & Pearce, 1996). *Guanxi* has strongly governed the Chinese social and business fabric and modern Chinese society. The concept expresses the way in which people draw on a web of informal, interpersonal connections that are characterized by reciprocal expectations about favors in personal relations. Such relational expectations strongly affect business life in China. *Guanxi* is oriented toward long-term social relationships. It is an intricate and pervasive relational network that contains implicit mutual obligations, assurances, and understanding. Lee and Dawes (2005) found that affection or liking “is the most important

component of *guanxi*, and it is so critical that Chinese people tend to mix the word *guanxi* with *ganqing* [=affection].” (p. 35). Furthermore, *guanxi* can be differentiated into different levels: *shengren guanxi* (*guanxi* with a stranger), *shuren guanxi* (*guanxi* with a known person), and *qinren guanxi* (*guanxi* with family members or strongly connected persons). The tie or bond and the level of trust and commitment increase as the *guanxi* moves to the next level (Fu et al., 2006).

Analyzing the existing literature shows that much research has been published on the role of *guanxi* in the success of market expansion and operations of Western MNCs and/or Chinese firms in the context of the Chinese market (Abramson & Ai, 1999; Ahlstrom et al., 2008; Buckley et al., 2006; Gu et al., 2008; Li, 2005; Li et al., 2008; Park & Luo, 2001; Reid & Jallat, 2006; Standifird, 2006; Standifird & Marshall, 2000; Tsang, 1998; Xin & Pearce, 1996). To better understand *guanxi* in different settings, Reid and Jallat (2006) suggest that “[t]he impact of *guanxi* on [...] internationalization may be an area of subsequent study.” (p. 50). However, in this field there has been scarce research conducted on the role of *guanxi* for Chinese outward internationalization (Zhao & Hsu, 2007; Zhou et al., 2007). Hence, extant research is pointing at the subsequent question of how *guanxi* functions in non-Chinese markets in terms of overcoming liabilities and achieving market expansion.

### **3.2.3. Trust and *guanxi***

Interpersonal trust is an important outcome of establishing *guanxi* (Chua & Morris, 2006; Chua, Morris, & Ingram, 2009; Lee & Dawes, 2005; Song, Cadsby, & Bi, 2012). *Guanxi*

serves as a strong insurance mechanism for conducting business in the Chinese business environment and therefore enhances trust between two persons as it is based on reciprocity; a person that does not return a favor eventually loses face and is seen as untrustworthy (Luo, 2007). Furthermore, mutual trust formulated through *guanxi* is often a prerequisite for business in China (Lee & Dawes, 2005; Luo, 2007). It is not limited solely to commercial activities but always extends to social relationships, through the exchange of favors and the giving of face and status (Luo, 1997b). Although some authors have argued the inclusion of trust as a component of *guanxi* (Redding & Ng, 1982; Tong & Kee, 1998), the majority of extant research finds *guanxi* to be a necessary *precondition* for establishing trust in the Chinese market context (Gu et al., 2008; Hoskisson, Eden, Lau, & Wright, 2000; Lee & Dawes, 2005; Wu & Leung, 2005).

The Chinese characters for trust are *xinren* (信任). The first character refers to trustworthiness in terms of a person's sincerity and concern for one's well-being, while the second character is about a person's trustworthiness in the sense of dependability, usability, and employability (Chen & Glen, 2004; Chua & Morris, 2006). This distinction between sincerity and ability in the Chinese language corresponds well with the Western two-dimensional conceptualization of trust (Chen & Glen, 2004). McAllister (1995) showed that interpersonal trust among managers in organizations is characterized by cognition-based trust and affect-based trust. The former refers to trust by using the "head," the latter refers to trust based on the "heart."

#### **3.2.4. Guanxi vs. Western networks**

Research found that *guanxi*, as the Chinese version of social network ties, has distinct ways of operating because of the unique characteristics that result from the special Chinese cultural setting and its contemporary political and socio-economic system (Abramson & Ai, 1999; Fan, 2002; Gu et al., 2008; Luo, 2007). However, some works conclude that *guanxi* is similar to or even a duplication of the concept of Western networking (Kenrick, Neuberg, & Cialdini, 2007; Wellman, Chen, & Dong, 2001; Zhao & Hsu, 2007; Zhou et al., 2007). Previous research further argues the existence of universal commonalities such as the norms of reciprocity (Gouldner, 1960) or the process of social influence (Cialdini, 2008) that are not specific to any cultures. To the best of our knowledge, the only empirical research on the difference between *guanxi* and Western networking was conducted by Chua et al. (2009). Chua and colleagues found that (1) affect- and cognition-based trust are more intertwined for Chinese than for Americans; (2) the effect of economic exchange on affect-based trust was more positive in the case of *guanxi*, while the effect of friendship was more positive for American networking; and finally (3) the extent to which a given relationship was highly embedded in ties with third parties increased cognition-based trust for Chinese but not for Americans.

Our research investigates the relationship and sequence between *guanxi* and trust when it is formed and used by Chinese firms in Western countries and with non-Chinese partners. In this paper, we refer to the social network ties between Chinese and Westerners that reflect positive mutuality as “*guanxi*-like” relationship.

### **3.3. Methodology**

To fully understand and categorize the role of *guanxi* for overcoming the LoO of Chinese firms in developed markets, this study applied a qualitative research methodology using a multi-case study design (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Yin, 2003). Experiences from previous research on Chinese firms show that it is generally best to obtain sensitive information about strategies and tactics through face-to-face interviews (Ahlstrom et al., 2008). Hence, we conducted 29 semi-structured interviews with decision-makers at 17 Chinese firms that operate internationally to answer our research question.

### **3.3.1. Sample**

To comprehensively ascertain the perceptions of executives, we gathered viewpoints from different managerial levels (Isabella, 1990). Participating interview partners represented four different levels, including the CEO, the general manager for the international market, and/or the overseas chief sales or account manager. At two large firms we expanded our selection to include middle managers such as strategy, marketing, or project managers to gain further insights. All of our participants have influential decision-making power for the business operation of their firm in Europe. The B2B setting is especially interesting for exploring the topic of *guanxi* because of the greater importance of client interaction and customer relationship management than in the B2C context (Coviello & Brodie, 2001; Gruen, 1995). In addition, the B2B context has thus far been the spearhead of successful Chinese outward internationalization, with examples like Huawei (telecommunication) and Baosteel (steel) as frontrunners. Our sample was finished when theoretical saturation was reached, which was indicated by information redundancy (Strauss & Corbin, 1998). The final sample consists of 29 interview partners from 17 Chinese firms that are active in

Europe and headquartered in China. The European subsidiaries investigated in this study are located in Austria, Germany, and Sweden. Table 4 gives an overview of the final sample of this study.

*Table 4: Study Sample*

Name	Background information
Mr. Shen	CEO and Shareholder, mid-sized construction firm, age cluster: A3, experience category: E3, Ph.D. in Europe, previous work experience at a Chinese state ministry
Ms. Zhao	General Manager Europe, mid-sized construction firm, age cluster: A3, experience category: E2, responsible for business development in Europe
Mr. Liu	Partner and Founder, small professional service firm, age cluster: A3, experience category: E3, M.A. and Ph.D. in Europe
Ms. Zhou	Partner and Founder, small professional service firm, age cluster: A3, experience category: E3, M.A. and Ph.D. in Europe
Mr. Zhang	General Manager for Western European country, large telecommunication equipment provider, age cluster: A2, experience category: E2
Mr. Schmidt	Chief Account Manager, large telecommunication equipment provider, German, responsible for an MNC, age cluster: A3, more than 10 years of prior work experience in China
Mr. Yang	Sales Director and Account Manager, large telecommunication equipment provider, responsible for an MNC, age cluster: A2, experience category: E2
Mr. Wang	Marketing Manager, large telecommunication equipment provider, responsible for Central and Eastern Europe, CIS, and Russia, age cluster: A1, experience category: E1
Mr. Yi	Supply Chain Team Leader, large telecommunication equipment provider, responsible for supply chain in Northern Europe and training in Europe, age cluster: A1, experience category: E1
Ms. Xu	Supervisor, Bidding & Commercial department, large telecommunication equipment provider, responsible for large telecom deals, age cluster: A1, experience category: E1
Ms. Zao	Strategy Manager, large telecommunication equipment provider, responsible for global marketing strategy, age cluster: A2, experience category: E1
Mr. Han	Project Manager, large telecommunication equipment provider, technical team leader serving a number of large Western telecom clients, age cluster: A1, experience category: E1

Ms. Huang	Commercial Manager, large telecommunication equipment provider, responsible for global marketing strategy, age cluster: A1, experience category: E1
Mr. Yuan sr.	CEO and Founder, small mechanical engineering firm, age cluster: A3, experience category: E1
Mr. Yuan jr.	General Manager International Business, small mechanical engineering firm, age cluster: A1, experience category: E1
Mr. Zhu	General Manager for Western European country, large shipping and logistics company, age cluster: A3, experience category: E3
Mr. Frei	General Manager Europe, large electrical equipment manufacturer, German, age cluster: A2, prior experience with Chinese firms as suppliers
Mr. Braun	Sales Manager Europe, large electrical equipment manufacturer, German, age cluster: A2, no prior experience with Chinese firms
Mr. Meng	General Manager Europe, large steel company, age cluster: A2, experience category: E2
Mr. Chen	CEO and Shareholder, mid-sized automotive supplier, Founder of a Chinese-European cultural exchange platform, education in Europe, age cluster: A2, experience category: E3
Ms. Yu	Assistant to the CEO, mid-sized automotive supplier and Chinese-European cultural exchange platform, age cluster: A1, experience category: E3
Mr. Wu	CEO and Founder, small electronic equipment manufacturer, age cluster: A2, experience category: E1
Mr. Lu	General Manager International Business, mid-sized automation and control company, age cluster: A2, experience category: E2
Mr. Feng	General Manager International Business, large agricultural machines manufacturer, age cluster: A2, experience category: E2
Mr. Wei	General Manager International Business, large steel manufacturer, age cluster: A2, experience category: E1
Mr. Lei	General Manager International Business, small electronic equipment manufacturer, age cluster: A1, experience category: E1
Mr. Peng	CEO and Founder, small biotechnology company, age cluster: A2, experience category: E2
Mr. Xue	CEO and Founder, small industrial automation company, age cluster: A2, experience category: E2
Mr. Deng	CEO and Founder, small robot automation company, age cluster: A2, experience category: E2

Notes: All participants have decision-making power for the international business operations of their respective Chinese firm. Some participants asked for anonymity; hence, all names listed above are pseudonyms.

The revenues of the small firms are below USD 100 million; mid-sized firms have revenues ranging from USD 100 million to USD 1 billion; large firms have revenues above USD 1 billion.

The range of the age clusters are: A1: 25 – 40, A2: 41 – 55 and A3: 55+ years.

The years of international experiences are categorized into: E1: 0 – 5, E2: 5 – 15 and E3: 15+ years.

All Chinese firms investigated here have operations outside of China and at least one subsidiary in a European country. However, most of the mid-sized and large companies operate around the globe.

### **3.3.2. Data collection**

To supplement and extend previous research we relied on in-depth interviews with managers (Flint et al., 2002). Interviews were semi-structured “so that the conversation could develop freely according to the answers of the informants, and to allow in-depth inquiry” of areas of special significance to the interviewee (Mäkelä & Maula, 2005), (p. 238). On average each interview lasted 75 minutes, with the shortest interview at 40 minutes and the longest at 150 minutes. They were audio recorded in 25 of the 29 occasions. In 4 occasions the interview partner refused the audio recording and notes were taken instead. The interviews were conducted in the native language of the participant as previous researchers suggest that this allows participants to express ideas more freely and accurately (Guo & Miller, 2010; Siu & Bao, 2008).

An interview guideline and an overall description of the research were sent to the participants prior to the interview to ensure their familiarity with the topics of interest. The interviews were designed to learn as much as possible about a participant’s perceptions, observations, and thoughts related to her or his firm’s internationalization to Europe, the challenges faced, and the role of *guanxi* in overcoming those challenges. We tried to ensure consistency of understanding about described phenomena during the interviews by ensuring that interviewees thoroughly understood the topics when they were introduced.

To reduce the chances of misinterpretations of the interviewee after the interview, we sent the verbatim transcripts to the interviewees for revision.

Qualitative information derived from the interviews was supplemented by several secondary sources to increase the reliability and validity of the data (Miles & Huberman, 1994). For each of the companies included in this study, we analyzed annual reports, company biographies, and other communication material. Through this analysis, we became familiar with the companies and industry sectors, as well as the company's self-perception of its role in the marketplace. Moreover, we investigated analyst reports, print media, and the Internet for further company and industry-related information to gain third-party information about the firms and their environment. This background reinforced and provided orientation for the statements made by the participants. Secondary data sources complemented the insights gained through primary data sources (Miles & Huberman, 1994).

### **3.3.3. Data analysis**

For the qualitative data analysis we used comparative analysis to discover theory that can be derived from the empirical data (Strauss & Corbin, 1998). With the intention to recognize categories and properties of the collected data, we applied the standard open, axial, and selective grounded theory coding processes (Strauss & Corbin, 1998). The entire process of coding and interpretations was facilitated by using the NVivo software. Our analyses moved back and forth between previously identified recurring categories of data and newly collected interpretations of phenomena. This iterative procedure is aiming to achieve a higher level of abstraction (Martin & Turner, 1986), encompassing all shades of

the data (Isabella, 1990) modified the initial categories as necessary, removing older ones and adding new ones that accounted for newly identified evidence. The final set of codes were derived from approximately 500 pages of transcribed data. The revised Uppsala model served as a guiding framework for analysis. Table 5 presents an example of initial and final codes that evolved from the data.

*Table 5: Development of Coding Categories (Examples)*

<b>Preliminary Coding Categories</b>	<b>Example</b>	<b>Final Coding Categories</b>
Sales tactic	Exceeding client expectations through excellence in service	Service excellence
Barriers to market entry	Inability to access relevant business networks in the developed country	Liability of Outsidership
Market expansion	Expanding to less competitive market segments first and targeting the most competitive in the last stage	From periphery to the core
Partnership	Western business partner is willing to consider Chinese supplier as strategic partner	Positive commitment
Negative brand image	Negative perception of the quality and reliability of Chinese firms	Mistrust

### **3.3.4. Trustworthiness and transparency**

We assessed trustworthiness by applying the set of nine criteria, put together by Flint et al. (2002), that combines two overlapping sets of criteria: one set from interpretive research (credibility, transferability, dependability, confirmability, and integrity) and one set from grounded theory (fit, understanding, generality, and control). Table 6 shows how we addressed each criterion in detail.

Table 6: Trustworthiness and Transparency

Criteria	Addressed in this research
<p><b>Credibility</b> Extent to which the results appear to be acceptable representations of the data</p>	<p>Interviews were conducted with two interviewers. Interviews and transcripts were done by native speakers.</p>
<p><b>Transferability</b> Extent to which the findings from one study in one context apply to other contexts</p>	<p>Interviews were conducted only with key informants at the HQ of Chinese firms and European subsidiaries. Theoretical concepts were represented by data from at least the majority of the participants.</p>
<p><b>Dependability</b> Extent to which the findings are unique to time and place</p>	<p>Participants reflected on past and recent experiences in Europe. Many compared it to experiences they had in China and some also to other markets, such as the United States, Latin America, Africa, and India.</p>
<p><b>Confirmability</b> Extent to which interpretations are the results of the participants and the phenomenon</p>	<p>Two China-based academic members and one Chinese practitioner acted continuously as auditor and sparring partner for our research, which helped to expand and refine the interpretations.</p>
<p><b>Integrity</b> Extent to which interpretations result from misinformation or evasion of participant</p>	<p>Interviews were conducted in a professional way. Every interview started with a clear definition of the topic and easy-to-answer warm-up questions. Strict anonymity and confidentiality were promised to the participants, resulting in no evasion of the topic.</p>
<p><b>Fit</b> Extent to which findings fit with the substantive area under investigation</p>	<p>Concept of <i>guanxi</i> was analyzed in a new setting and captured the dynamics and complexities of the data. Revised Uppsala process model served as guiding structure for analysis.</p>
<p><b>Understanding</b> Extent to which participants buy into the results as representations of their world</p>	<p>Transcripts were sent to participants for verification. Summary of the results were presented and discussed with some participants, one Chinese practitioner, and two China-based research colleagues.</p>
<p><b>Generality</b> Extent to which findings discover multiple aspects of the phenomenon</p>	<p>Interviews were of sufficient length and openness to capture multiple aspects of the phenomenon. Experience and background of interviewers facilitated the exploration of multiple aspects of <i>guanxi</i>.</p>
<p><b>Control</b> Extent to which organizations can influence aspects of the theory</p>	<p>Participants have direct control of their <i>guanxi</i> that is relevant for overseas business operations.</p>

### 3.4. Results

We present our results from the qualitative data analysis in this section. We describe (1) the nature of LoO for the Chinese firms in Europe; (2) the role of Chinese firms' existing *guanxi* for overcome those LoO; (3) how those firms built new network ties with Western clients; and finally (4) our analysis of the *guanxi*-building process of Chinese B2B firms in Europe, its nature, sequence, and function. Throughout the section, we derive propositions in light of our findings and extant research in order to stimulate and guide future research.

#### 3.4.1. Existence of LoO faced by Chinese firms

The Chinese firms in our sample faced a LoO in their European markets. The primary reason for this liability was existing mistrust that hindered commitments necessary to initiate business relationships (Johanson & Vahlne, 2009). The main challenges for the internationalizing Chinese firms were to access existing business networks and to establish trust with their potential developed market clients. We use the statement of Mr. Zhang to illustrate how this manifest:

*“The European clients didn't know our company. They have strong prejudices against products from China. They think that the Chinese can only produce cheap goods like textiles and toys. In the past, most of our clients didn't believe that we are able to deliver high-tech solutions like [product of the company]. [...] In the case when clients knew our company, they still wouldn't trust our products. They didn't know about the*

*performance and quality of our products. Our brand didn't stand for good quality at all. In the case when the clients really decided to buy our products and services, they would be very critical about the price and demand a much lower price compared to what they would pay to our Western competitors. They would even do so when we promised and assured them in writing the same quality and service level as with the solution from the European competitor."*

It was particularly difficult for the first wave of Chinese firms to establish a position in the European business network when those firms operated in rather mature industries and the main competitors were Western firms. This difficulty indicates a strong and long-established local business network. Our interview participants remarked that this LoO manifested itself in a rather subtle way. In Europe the mistrust was not openly communicated by the potential clients but became obvious in their actions. In addition, Western competitors used the outsidership issue quite openly during tenders, arguing that Chinese firms could not be trusted in terms of availability, quality, and security. In one case, a Chinese firm was trying to enter a European country where local firms in its specific sector were of strategic importance for the economy and employment. It was first selected by the European client as a partner because of the convincing solution presented and the low price offered. However, in the very last moment they called off signing the contract and the project was instantly given to the European competitor. Similar situations happened several times after that first incident. The interview partners suspected that both the mistrust about Chinese firms and the inability to access existing networks were the primary reasons for this loss of business. From this analysis we conclude:

**Proposition 1a:** Chinese firms in developed markets face a LoO that manifests in potential clients' distrusting their performance and that hinders the Chinese firms' ability to establish a position in the Western business network.

**Proposition 1b:** Liability of outsidership for Chinese firms operating in developed markets is higher in mature industries and in those where business networks consist primarily of Western firms.

#### **3.4.2. Exploiting existing stock of *guanxi***

One way for Chinese companies to overcome LoO in Europe is to leverage their existing *guanxi* within the (overseas) Chinese community. Exploiting their stock of *guanxi* would be a logical step in line with Johanson and Vahlne (2009) who argue that “[...] the focal firm’s existing insidership in a relevant network may help it enter a foreign market” (p. 1415). In our case, the relevant existing *guanxi* may come from the local Chinese embassy or consulate, the overseas Chinese network, Chinese firms in Europe, or other parts of the home-country business and institutional network. Interestingly, none of our interview partners mentioned any existing *guanxi*-like relationship with Western partners, e.g. from within China, that may have helped them in their market entry in Europe. In addition, they unanimously considered existing *guanxi* with institutions and businesses in China as generally irrelevant for Europe.

Our finding is in line with the results from Kotabe, Jiang, and Murray (2011) that confirm the missing link between strong government ties and positive performance of new product

introductions in China. However, they run contrary to research on the outward internationalization of Chinese firms (Yiu, Lau, & Bruton, 2007) and other emerging economy firms (Elango & Pattnaik, 2007). Neither of those extant studies specifically looked at expansions into developed markets. Indeed, managers with work experience in other emerging markets confirmed that the situation can be quite different in these other countries. For example, one of the participants in this study cited that for large-scale projects in some African countries, home-country networks with government officials and bankers are highly important for winning the order. Our finding of the non-significance of existing *guanxi* in the developed market context of Europe may be explained by the fact that so far Chinese networks consisting of suppliers, clients, and government institutions have a rather small footprint in Europe and are not seen as relevant. Therefore, we suggest the following:

**Proposition 2:** Existing *guanxi* with the Chinese business and institutional networks from the home and host country are of no significance for first-wave firms during their entry into Europe.

### **3.4.3. Transferring *guanxi* building capabilities from other contexts**

As the existing stock of *guanxi* cannot be exploited to overcome LoO in Europe, Chinese firms feel the pressing need to develop new network ties. As such, the focus shifts from exploiting to exploring, and the dynamic capability of *guanxi*-building comes into focus. Johanson and Vahlne (2009) argue that through interaction with international partners, a general knowledge about building relationships abroad can be generated that may be

transferable to new situations. Therefore, the question is whether the profound Chinese knowledge of *guanxi*-building can be transferred to other countries.

We found that this capability can also be used and further honed in markets other than China. Five participants shared with us their particular experiences about relationship building in India, Latin America, and Russia. These managers agreed that their *guanxi*-building skills from China helped them to quickly understand the relationship-building process in these emerging markets. This transferability may be explained by the comparable institutional market and business environments and the similarly important role of social network ties (Lovett, Simmons, & Kali, 1999). However, this transferability does not apply to the same extent for Europe, where local relationship-building knowledge had to be newly acquired through a lengthy, experiential learning process consistent with what has been proposed in previous international business research (Chang, 1995; Johanson & Vahlne, 1977; Nadolska & Barkema, 2007). This leads us to:

**Proposition 3:** The extent to which knowledge about the relationship-building process from previous experiences in emerging markets can be transferred to developed countries is limited.

#### **3.4.4. Familiarity as a driver for *guanxi* building capabilities**

According to the 2009 Uppsala model, an important step in overcoming the LoO is to accumulate knowledge about the ways in which relationships are formed in the new network (Johanson & Vahlne, 2009). This is clearly supported by our data, in which all of

our Chinese participants with education in Europe and/or with international experience of more than 10 years confirmed that they successfully managed to build *guanxi*-like relationships with Westerners, while the participants with less than five years of international experience still saw *guanxi*-like relationships with Westerners as a major challenge. The words of Mr. Liu from the professional services industry illustrate this process:

*“Our education in Europe was very important for our marketing activities, client acquisition, and relationship management. We know the rules and cultural norms of this country. In addition, we have a certain level of academic education, which is important for our clients. This ensures respect and trust. [...] We have earned respect from some companies, even though they haven’t become our client. I think when you offer high-quality professional services to your clients; this will be appreciated by your partners. Hence, the business relationship with our partners has become a very close one over time and in many cases also a very personal and social relationship. For example, in times when the economic crisis was endangering the business, we had the feeling that some of our clients were in serious trouble. Here, we were willing to do projects free of charge for them. Only when they continue to exist can we have further business. We see the reciprocity in our relationship. Back then, when we were in trouble, we felt the support and sympathy of our closest clients.”*

As discussed, extant research points to differences between *guanxi* and Western networking (Abramson & Ai, 1999; Fan, 2002; Gu et al., 2008; Luo, 2007). Our Chinese participants unanimously agreed that building *guanxi*-like relationships with Westerners is marked with obvious difficulties that have to do with the different language, culture, and

an initial lack of commonalities and connections. Eriksson, Johanson, Majkgard, and Sharma (1997) referred to these difficulties as the lack of institutional market and business knowledge. In addition, building relationships in foreign countries is usually more costly than in the home country (Chen, Chen, & Ku, 2004). Hence, some firms seek recruitment of Overseas Chinese to quickly overcome the lengthy learning requirement (Blomkvist & Drogendijk, 2013; Chai & Rhee, 2010). We use a statement from Mr. Chen to illustrate that local guanxi building can be successful in developed markets, but that would require a very time-consuming process:

*“It is a long way and a patient accumulation process of knowledge about building relationships in Europe. On the one hand, it is about establishing mutual sympathy; on the other hand, it is a rational collaboration. But without knowledge and skills, nobody will listen to you. It is a matter of time and of knowledge. [...] Even though the Europeans don’t understand face. But also things like renqing [=unpaid obligation resulting from invoking a guanxi relationship] can be taught. [...] Yes, people are all the same. At the end of the day, they also emphasize the value of guanxi. However, you need to bridge the cultural distance first. Trust is a condition for establishing guanxi. And in Europe, of course there is mistrust. Only time can solve this issue.”*

From this discussion we conclude with:

**Proposition 4:** Knowledge about the local relationship-building process has to be built gradually through experiential learning in the developed country itself.

#### **3.4.5. Guanxi building as a localized process**

A more detailed investigation of such network building processes leads to an analysis of the relationship between social network ties and trust. According to the recent Johanson and Vahlne (2009) framework, the necessary element for overcoming liabilities of outsidership is establishing trust, which then allows for commitments to be built. In other words, in line with previous research in other contexts (Kumar, Scheer, & Steenkamp, 1995; Kwon & Suh, 2004; Morgan & Hunt, 1994), the revised Uppsala model sees trust – and at a minimum the absence of mistrust – as the precondition for commitment. At this point, a distinction between affective and calculative commitment is useful (Mathieu & Zajac, 1990): An affectively committed party desires to continue a relationship out of a sense of sympathy, loyalty, and belongingness, while calculative commitment is based on perceived structural constraints that bind the firm to its partner (Gounaris, 2005). Existing research refers to the former as “positive” and to the latter as “negative” motivation (Geyskens, Steenkamp, Scheer, & Kumar, 1996). Based on previous research (Chua, Ingram, & Morris, 2008; 2009; Lee & Dawes, 2005), we argue that *guanxi* and *guanxi*-like relationships are usually characterized by intertwined cognitive and affect-based trust and positive motivation for commitment, but they do not contain the negative motivation for commitment because a “[g]*uanxi* relationship that is no longer profitable or based on mutual exchange can be easily broken” (Luo, 2007), (p. 11).

For Europe, our data indicates that the situation is different. Managers of Chinese firms need first to overcome the initial LoO in the form of mistrust by establishing some level of cognitive trust. By performing well in the initial business engagements, the Chinese manager gets the chance to add affect-based trust and create some positive commitment to the relationship in Europe. Once these two elements are added to the initial cognitive trust,

a *guanxi*-like relationship is formed, further business is added, the Chinese manager and its firm become an insider, and this then further enhances trust and commitment. Like in the case of *guanxi* in China, in order to stay an insider the Chinese manager has to continuously meet the expectations of its Western partner (Lee & Dawes, 2005).

Some of our Chinese firms explicitly targeted their first offerings in Europe toward overcoming distrust by tactics that included, for example, references of existing Western clients, site visits to the Chinese headquarters, or even free-of-charge projects to prove their ability. This start of the relationship-building process is mirrored in a statement from Mr. Yang from a firm in the high-tech industry describing how he and his team build cognitive-based trust:

*“Visits to China and the HQ of our firm are very important. Many people don’t understand why, because they think this is only entertainment to the client and for building a relationship on a personal level. Actually, it is not. Why? Because we are doing this with only one purpose: They don’t have the confidence in China and a Chinese firm. They only get the information from the media, and outside of China this is usually very negative press. Some think we are still in the Cultural Revolution and this kind of situation. So if you want your customer to buy your goods or systems worth USD 10-20 million, these systems must be of top quality and never fail or the executive at the client firm gets fired. So how can you develop this confidence of your customer? We use a very simple way. We invite them to come to our HQ in [a tier-one Chinese city] and to see the rest of China. Normally, when they see the HQ and China, their attitude changes almost 100%. For example, we invited a lot of executives to visit China and I remember after one visit of a top-manager in China the face of this person looked really different because he couldn’t believe that China is so*

*advanced, and the whole day he was really upset because he compared China to his own country. [...] But anyway he started to do business with our firm.”*

After a solid cognitive trust base had been built and some business had been carried out, the Chinese firms tried to establish the other two elements, affect-based trust and positive commitments. Mr. Yang went on, illustrating the move from cognitive to affect-based trust and positive commitment, which is necessary to achieve a local *guanxi*-like relationship:

*“People are all the same. Don’t think that guanxi matters only in China and businesspeople outside of China are very professional. That’s not the case. Once you’re in the upper levels – where people have established long years of relationships – you are one of them. And there is a big difference between talking about business inside those circles and talking about business when you are outside of those circles. [...] I’m representing our company in that circle. We have a business relationship. And why do we have that? Because (1) we get things done, (2) we are an essential and long-term business partner, (3) you have confidence in my abilities, and (4) you trust my person. And that’s why we became business partners. After becoming business partners, you have to add some personal relationship. Then you are inside the circle. [...] When we have a good business relationship, the move from a business to personal friendship is easy. I just asked them for the handicap, ask them if they do sports, and ask them about their family. But you need the business relationship first. You can’t just call the CEO and ask him to play golf with you. Even when I leave the country and a new manager replaces me, he would still be part of this circle. Because he is representing our company! This means that our company is part of the circle.”*

Based on this discussion we propose:

**Proposition 5a:** Chinese firms apply tactics that help to offset the mistrust and establish cognitive trust with the decision-makers at the Western clients first. At a later stage, affect-based trust and positive commitment are built up to move toward a *guanxi*-like relationship with the Western executives.

**Proposition 5b:** Establishing a *guanxi*-like relationship with executives of Western clients allows the Chinese firm to become an insider in the business network of the developed country and hence to overcome the LoO.

#### **3.4.6. Changing function of *guanxi***

Previous empirical research in China has shown that *guanxi* has a substantial effect on market expansion by positively influencing sales growth (Gu et al., 2008; Luo, 1997a; Park & Luo, 2001; Zhang & Li, 2008). According to Luo (1997a), *guanxi* in China can be “the most effective (market growth) and efficient (low-cost) marketing tool” (p. 51). In terms of outward internationalization, however, extant research indicates that network linkages are less important for expanding in a developed market where a mature institutional environment exists (Chen & Chen, 1998) and for strengthening business relationships when there is no business tradition of *guanxi*-like relationships (Chen & Easterby-Smith, 2008). Our participants confirmed the general importance of *guanxi*-like relationships in European countries, but pointed out that the primary function here shifts from initiating leads to retaining customers.

According to Holm, Eriksson, and Johanson (1999), a close business network leads to mutual commitment, which fosters mutual dependence and ultimately has a strong positive effect on (joint) value creation in a business relationship. Therefore, one can argue that for Chinese firms, *guanxi*-like relationships in Europe are both, a prerequisite and an indicator for creating significant added value in existing business relationships in those markets. A statement of Mr. Yang illustrates how this progression might work:

*“No, I don’t think that guanxi works outside of China for acquiring a first project. It is not like that. You need to be very good in what you do first. You need first the hard thing [hereby referring to the performance of the products and solutions] and then add a little softness [hereby referring to guanxi] to that, then again some hard thing and then again some softness ... that continues, and you climb up and up the ladder. That’s how you succeed in business abroad! For example, the executive of a large Western MNC called us to help them when our Western competitor failed to deliver. But why did he call us? It’s because we have already established a good business relationship with him; he trusts us, and he can’t operate without us. In this occasion when you say: “Hey, let’s play golf together!” he will definitely say “Yes!”*

Based on the above discussion, we suggest:

**Proposition 6:** The function of *guanxi*-like relationships within the marketing mix shifts from lead generation and sales force marketing in the Chinese market context to relationship marketing in penetrating developed markets.

### **3.5. Discussion and conclusions**

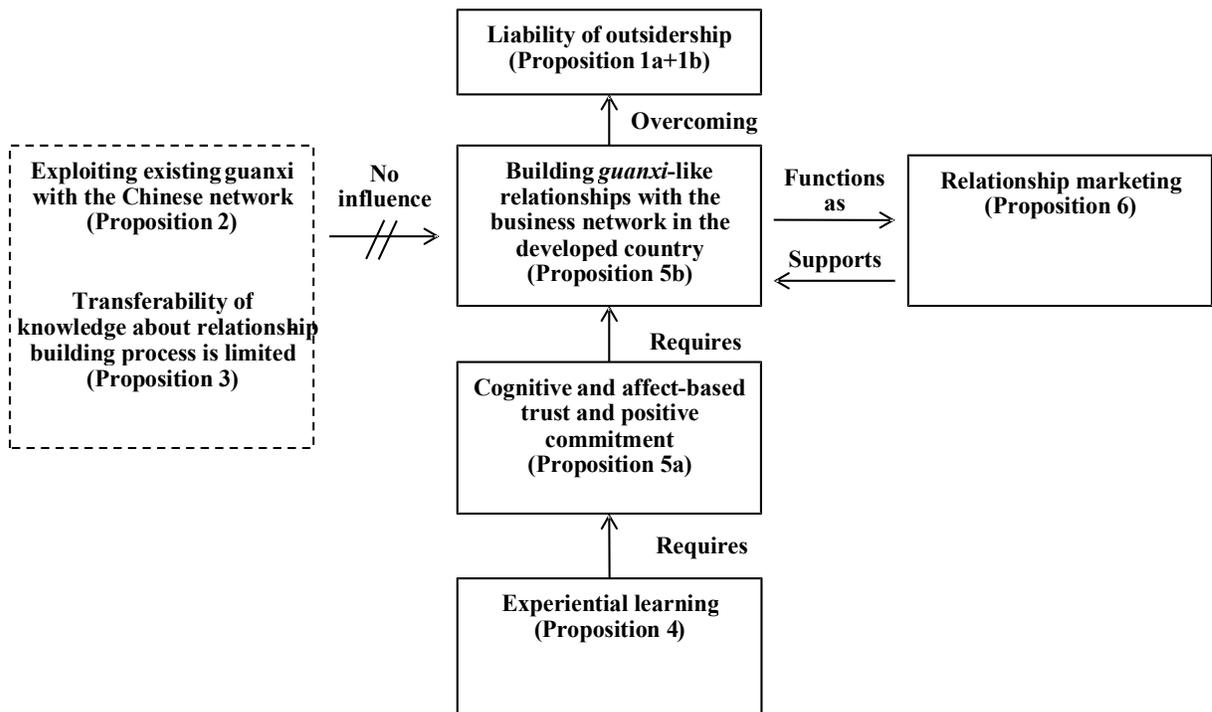
### 3.5.1. Process model for using *guanxi* to overcome the liability of outsidership

Based on the results of our case study research, we propose two models that extend the theory on social network ties and business network theory and contrast the differences of the former when working in a Chinese versus a developed country environment. The two models take a step beyond our data and speculate on cause-and-effect relationships of the constructs examined in our research. Hence, it demands further validation (e.g., through large samples and/or longitudinal studies).

Figure 2 posits that for overcoming LoO in Europe, which stems mainly from mistrust about Chinese firms, *guanxi*-like relationships with executives of the new business network have to be established for the firm to become an insider. We argue based on our 17 cases that the key to this is establishing cognitive and affect-based trust as well as positive commitment with the new customer in the developed market. In order to achieve that a rather lengthy process of experiential learning about relationship-building in the West is required. In addition, to overcome the initial mistrust, Chinese firms need to be competitive in terms of quality in their field and to focus on tactics that help to offset this mistrust and further build cognitive-based trust. The competitive strategy of the firm can support this relationship-building process by focusing on delivering high customer value and exceeding the expectations of the client. In some of our cases this was achieved through excellence in customer service. In developed countries those *guanxi*-like relationships function as a relationship marketing tool that supports customer retention, which again further strengthens the relationship in the business network. Contrary to our initial expectation and

previous research, leveraging the existing Chinese business and institutional network is in general less important for first-wave market entrants engaged in relationship-building with Westerners in the process of becoming an insider. In addition to that, the transferability of knowledge about relationship building process from China or other emerging markets is limited.

Figure 2: Process model for using *guanxi* to overcome the liability of outsidership

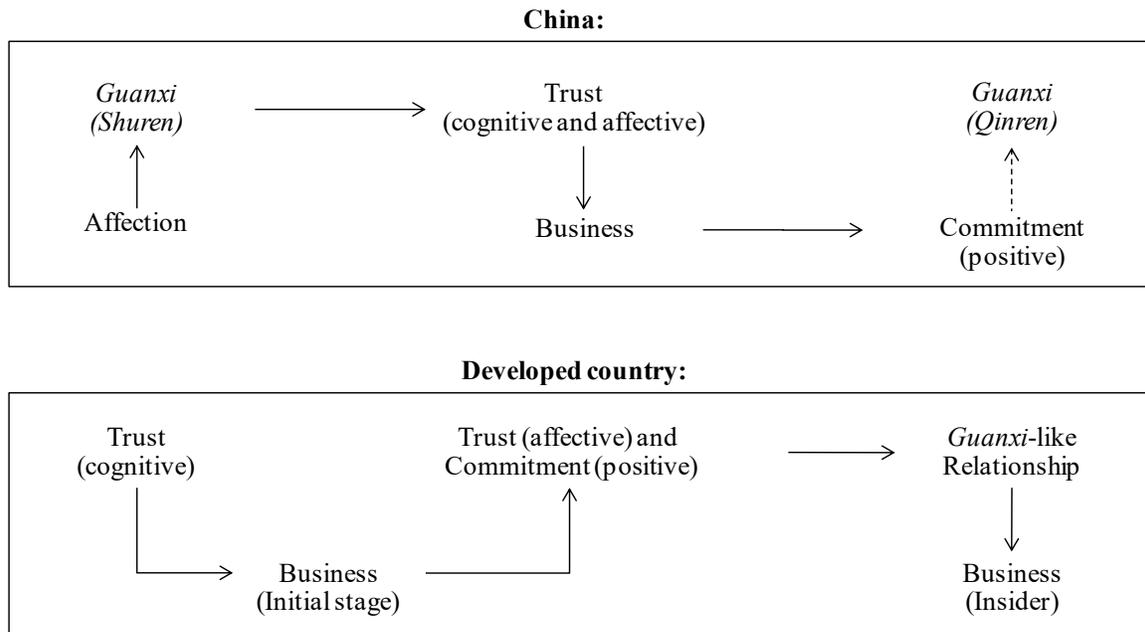


### 3.5.2. Guanxi-building in China and in developed countries

Extant research found, *guanxi* and *guanxi*-like relationships to be usually preceded by intertwined cognitive and affect-based trust and positive motivation for commitment (Chua et al., 2008; 2009; Lee & Dawes, 2005). Our findings suggest that the relationship between *guanxi* and trust changes its sequence in Europe. Our next model, depicted in Figure 3,

illustrates this difference in the relationship between social network ties and trust. It posits that in China, affection or *ganqing* is the first step in building a relationship with strangers. This affectionate connection may be achieved through commonalities such as mutual friends or the same Alma Mater. *Ganqing* allows a so-called *shuren guanxi*, a *guanxi* relationship with a familiar person, to be established. When managed well, we argue that this type of relationship further establishes cognitive and affect-based trust, which are prerequisites for business opportunities. The business relationship then allows for positive commitments to take place. After a while this *shuren guanxi* then may eventually become a *qinren guanxi*, a family or clan-like *guanxi* relationship. In Europe the situation is different. As described, managers of Chinese firms need first to overcome the mistrust by establishing cognitive trust. By performing well in the initial business relationship, the Chinese manager gets the chance to add affect-based trust and positive commitment to the relationship. Once these elements are added, a *guanxi*-like relationship is achieved, which finally allows the Chinese manager and its firm to become an insider. The statements of our interview partners indicated that the closing of this relationship-building process for Chinese managers usually takes significantly longer in Europe than in China. However, this situation may change as more Chinese firms establish a presence in Europe.

Figure 3: Guanxi-building in China and in developed countries



### 3.5.3. Theoretical implications

The present research makes significant contributions to theory. Our study is one of the first to offer insights from data from Chinese firms expanding into developed markets. It contributes to the revised network-based Uppsala internationalization process model (Johanson & Vahlne, 2009) by applying and extending it in the context of multi-case-study research from 29 decision makers and managers from 17 Chinese firms operating in Europe. Our research confirms the causal chain from relationship commitment over host-country relationship knowledge development and network knowledge development to business development (Johanson & Vahlne, 2006). Importantly, our results extend the theory by detailing the cause and effect of the process of successful internationalization to developed markets. In addition, we bridge the literature on Emerging Economy firms' internationalization and the network-based Uppsala internationalization process model by

contextualizing the important aspect of development of international social network ties from the perspective of the Chinese firm.

Secondly, we contribute to the theoretical concept of liability of outsidership by applying it in the context of emerging market firms expanding to developed countries. Liability of outsidership is characterized by a distinct network perspective (Johanson & Vahlne, 2009). Our investigation extends the theory by proposing a process model, detailing antecedents, cause and effects, for Emerging Economy firms to overcome those barriers and to eventually become an insider in the business network of the developed economy. The model describes the process from the perspective of the Emerging Economy firm taking into account contextualized constructs like home country institutional network ties and host country economic environment.

Thirdly, this paper expands the stream of research on *guanxi* in particular and social network ties in general. It is one of the first papers to investigate the role of *guanxi* of Chinese firms' internationalizing to developed economies. Our research takes into account the particular characteristics of *guanxi* and uses the extant research on trust (Lee & Dawes, 2005) to dissect *guanxi* into different elements in order to apply it in the different cultural context of Europe. Hence, our research offers a first step to take a dynamic view on a concept, which results from Chinese culture but is taken into modern business environment. Our findings provide insights into which elements of *guanxi* are transferable to the business networks of developed markets and give propositions about their impact and importance. We discuss, how certain functional strategies support the establishment of *guanxi*-like relationships. Lastly, our second model gives a fine-grained understanding of

the differences between the *guanxi*-building process in developed markets in contrast to the familiar process in China (Fu et al., 2006).

#### **3.5.4. Managerial implications**

The propositions we have derived in this research explain how it was possible for some front-runners from China to successfully enter developed markets and to successfully establish an insider position in a developed country business network and thereby overcoming the liability of outsidership that emerging market firms are facing.

Our first model suggests that Chinese firms may overcome the liabilities of outsidership through a process of establishing *guanxi*-like relationships within the business network of the developed country. Those ties serve the primary function of relationship marketing. However, this process requires two things: (1) the company needs to go through an experimental learning process on relationship building in the developed country itself and (2) focus on building cognitive and affect-based trust as well as positive commitment. As a result, an emerging market firm expanding to a developed country should deliberately consider those requirements with respect to their HR recruiting and Marketing & Communications strategy. Finding talent that can do not require the experimental learning process can significantly improve the speed of international expansion. Sizeable investments are also necessary for establishing a service network on par with the incumbent competition. Our research shows that a strategy of service leadership, which focuses on exceeding the expectations of the customers on service, clearly supports the process of overcoming liability of outsidership.

Our second model is detailing the relationship building process and contrasting the approach in Western countries to the familiar Chinese *guanxi*-building process. To initiate business in developed markets the Chinese company should first focus on building cognitive trust through quality, pricing and service that consistently exceeds the expectations of the Western customer. The departments for Research & Development, Product Management, Sales and Service of the emerging market firm need to work closely together to develop products and services that meet the market requirements of the host country and define specific area in which the expectations of the customer should be exceeded. In some cases this can only be the price, however, it needs to be ensured that quality and after-sales service are on par with the competition. At a later stage, the focus should shift to building affective trust and positive commitment. This may be achieved by stressing the long-term benefits of the partnership and focusing on expanding the business relationships with key decision makers to a personal level. In our cases, some emerging market firms used for example invitations to their home country HQ to support the relationship-building process. Having established cognitive trust, as well as affective trust and positive commitment, the Chinese firm can become an insider in the developed country's business network.

Our research results provide important insights for developed country firms (Kaufmann & Koerte, 2010) as well as for emerging country firms (Hitt, Lee, & Yucel, 2002). Particularly, Asian firms striving to achieve competitive advantages in the global markets need to understand the dynamics and differences in relationship-building when they are expanding overseas. The ability to build and manage managerial network ties in different parts of the world is critical for the success of any international company. They must learn

how to adapt their market expansion and *guanxi* strategy according to the changing requirements of developed markets. Also, an integrated expansion plan is required with detailed functional strategies for Sales and Service, Marketing, Research & Development, as well as Human Resources/ Recruiting.

Established Western firms need a clear picture of the relationship-building strategies of newcomer firms in order to be able to react accordingly to the new challenges. Some Chinese firms are focusing their efforts on hiring experienced sales, service and product development managers away from the incumbent players. Western companies need to have a system in place to manage retention of their key personnel. The entry of new players to the market results in greater competition and higher benefits for the customer. Western companies need to understand their strengths relative to the newcomers and develop strategies to defend their castle.

### **3.5.5. Limitations and future research**

The propositions of this paper, and also the limitations suggest some fruitful directions for future research. None of the 17 firms investigated here had an ongoing JV with a European firm, either in Europe or in China. The revised Uppsala model argues that existing insidership and know-how about building relationships with foreigners may facilitate the process of becoming an insider (Johanson & Vahlne, 2009). Building on this and other previous studies (Deng, 2004; Mathews, 2006), we suggest that future research should look specifically at firms that have a JV with Western firms and examine how this relationship influences the liability of outsidership and *guanxi*-building when expanding to developed

countries (Zhang & Keh, 2010). Furthermore, existing customer-supplier relationships with Western firms in China may also serve as a starting point for learning and cognitive trust-building and may be leveraged when the Chinese firm wants to enter new business networks in the developed country (Johanson & Vahlne, 1990; Sharma & Johanson, 1987). We believe this aspect deserves further research because so far the focus has been on the role of Chinese *guanxi* networks for internationalization (Zhao & Hsu, 2007; Zhou et al., 2007).

Our research looked specifically at the situation in the European market. Some of the participants with work experience in other emerging countries described situations that were quite different. For example, large-scale projects of state-owned Chinese firms in India required the firms to build good relationships with local agents. This necessity resembles practices in China. Particular research on HR management of Chinese firms in Africa reveal crossvergence of HR practices that blend Chinese *guanxi* and African social network ties into a specific organizational culture that supports commitment to the organization and work attitude (Xing, Liu, Tarba, & Cooper, 2014). So, the question remains: Do Chinese firms have a competitive advantage in emerging markets compared to Western firms in this regard, as they are apparently more proficient in building and managing *guanxi*-like relationships?

Another interesting aspect in the context of emerging markets is the role of the ties to Chinese governmental institutions (Li, Yao, Sue Chan, & Xi, 2011). During some Chinese M&A deals, the effect of Chinese institutions was evident; however, it is hard to grasp the overall scale and format of this involvement from the outside (Child & Rodrigues, 2005; Tzeng, 2008). One of our participants told us that projects in Africa are frequently a result

of barter deals between the government of some African countries and China. These African countries provide China with natural resources, while Chinese firms help to construct and run infrastructure in that country. Moreover, these projects are usually financed by large, Chinese state-owned banks. It would be interesting to understand to what extent Chinese internationalization to Africa or other emerging markets differs to.

Extant research indicates the importance of acquiring strategic assets for the outward internationalization of emerging market firms (Cui & Jiang, 2009; Deng, 2009). M&A, as another strategy that Chinese firms use to overcome the liability of outsidership, should be specifically investigated in future research efforts. The example of Geely's acquisition of Volvo is an example for a strategic move to overcome a lack of trust in the quality of Chinese cars by acquiring the brand that is for decades rated in the West as producing the safest cars in the industry.

Finally, in terms of methodology, a quantitative approach would be useful to test the propositions derived in this paper. This approach may also be combined with one that investigates our propositions in a different setting than ours. For example, the role of *guanxi* for overcoming the liability of outsidership could be examined a) in the context of the Chinese market, b) in other developing, and c) in advanced markets.

## 4. The role of *guanxi* for headquarter subsidiary relationship

### 4.1. Introduction

In an era marked by globalization and the rapid expansion of multinational enterprises (MNEs), the relationship between headquarter and subsidiary play a pivotal role in the success and sustainability of international business ventures. This research aims to shed light on a specific dimension of this complex interplay—the role of *guanxi* in shaping the headquarter-subsidiary relationship of Chinese firms venturing into Europe.

The rise of Chinese MNEs (CMNE) on the global stage has been nothing short of remarkable. With their advantage of a seemingly unlimited home market and strong cost competitiveness, Chinese firms have emerged as formidable players in the global business landscape across almost all industries. However, the cultural and institutional differences between China and Europe create a unique set of challenges and opportunities for these firms as they establish and manage their European subsidiaries.

*Guanxi*, deeply rooted in Chinese culture, refers to a complex web of personal relationships, trust, and social networks that hold significant influence in Chinese business practices. While its role in shaping domestic business operations in China is well-documented, the extent to which *guanxi* affects the relationships between Chinese MNE headquarters and their European subsidiaries is an area that demands closer scrutiny (Chen, 2017; Reid & Jallat, 2006).

Understanding the dynamics of *guanxi* within the headquarter subsidiary relationship is crucial for both academic scholars and practitioners alike. By exploring how *guanxi*

influences decision-making processes, communications, learning and overall international governance, this research seeks to contribute to the broader literature on emerging market multinationals (EMNE) and particularly, CMNEs. Hereby answering calls for more insights and research to this specific phenomenon (Hernandez & Guillén, 2018; Ramamurti & Hillemann, 2018). Additionally, by using the extended internationalization process model (IPM) for headquarter subsidiary relationship as theoretical background (Vahlne & Johanson, 2021), this research applies a foundational but not widely used theory in the IPM to the specific context of Chinese multinationals and thereby making it more relevant. It also zooms in on the individuals (Vahlne & Schweizer, 2022) and adds more realism (Vahlne & Johanson, 2020) to the IPM. Lastly, it offers practical insights and advises Chinese firms on how to navigate the intricate European business environment and optimize the headquarter subsidiary relationships for sustainable growth and success.

This study adopts a qualitative approach, drawing on the comprehensive analysis of 19 cases of Chinese firms with European subsidiaries derived from 45 interviews and 2000 pages of secondary data. Through our case studies, we aim to provide a nuanced understanding of the various dimensions of *guanxi's* impact, offering a valuable resource for academics, policymakers, and business leaders engaged in the rapidly evolving landscape of Chinese-European business interactions. Ultimately, this research aims to answer the research question of “What role does *guanxi* play in the relationship between Chinese headquarter and European subsidiary; what is the particular role for coordination and governance within that international network?”

## **4.2. Theoretical background**

Two streams of research serve as the theoretical background for this research. The first one is the Uppsala internationalization process model (IPM), a foundational theory in international business. Here the focus is the extension of the IPM from 2021 with particular emphasis on headquarter subsidiary relationship (Vahlne & Johanson, 2021). The second one is the contextual research on Chinese internationalization and *guanxi*. The following two sections analyze and summarize the extant literature on both.

### **4.2.1. Extant research on IPM and its extension towards headquarter subsidiary relationship**

The Uppsala model of firm's internationalization, also known as the Uppsala internationalization process model (IPM), is a prominent theoretical framework that aims to explain how firms gradually expand their international activities and manage within networks. Developed by Johanson and Vahlne in the 1970s, this model has become one of the most influential and widely discussed theories in international business research. This literature review provides a comprehensive analysis of the Uppsala model's evolution, key principles, empirical evidence, criticisms, and its contemporary relevance in understanding how firm's coordinate and govern within a global network of companies.

The Uppsala model originated from the pioneering work of Johanson and Vahlne in the context of Swedish firms' internationalization to other Nordic countries (Johanson & Vahlne, 1977). Initially proposed in 1977, the model has undergone several revisions and refinements over the years, that (i) added the terms “advantage package” and “advantage cycle” in response to Dunning’s Eclectic Paradigm Model (OLI) (Dunning, 1980; Johanson

& Vahlne, 1990), (ii) emphasized the role of networking and learning of entrepreneurs (Johanson & Vahlne, 2003, 2006; Schweizer et al., 2010), (iii) coined the term “liability of outsidership” (Johanson & Vahlne, 2009), (iv) conceptualized the network perspective for internationalization (Johanson & Vahlne, 2009; Vahlne & Johanson, 2017, 2020), and (v) extended the concept to managing and coordinating connected companies within a global network (Vahlne, Ivarsson, & Johanson, 2011; Vahlne & Johanson, 2021). The main idea of the model posited that firms' internationalization followed a gradual, incremental, and experiential process. As firms accumulated experiential knowledge in foreign markets, their commitment and involvement in international activities increased. The updated IPM, however, stresses that networks may facilitate a lowering in liabilities of outsidership for MNEs, leading to far more rapid internationalization processes.

The key principles of the Uppsala model can be summarized as follows (Johanson & Vahlne, 1977, 2003, 2009):

**Psychic distance:** The Uppsala model emphasizes the role of psychic distance, referring to cultural, linguistic, and institutional differences between the home and foreign markets. Firms tend to enter markets with lower psychic distance initially, and as they gain experience and knowledge, they gradually venture into more distant markets.

**Learning and commitment:** The model highlights the importance of learning through experiential knowledge and the gradual commitment of resources as firms become more familiar with foreign markets. Entry modes evolve from less

resource-intensive to more resource-intensive as firms gain experience and reduce uncertainty.

**Market knowledge and network relationships:** The Uppsala model emphasizes the significance of market knowledge and network relationships in shaping a firm's internationalization process. Firms tend to rely on existing relationships and networks to enter new markets, facilitating information exchange and reducing market entry barriers.

Regarding our particular focus on headquarter subsidiary relationship, the extended IPM stipulates the following key ideas (Vahlne et al., 2011; Vahlne & Johanson, 2021):

**Complexity and the multinational business enterprise (MBE):** The global company network has become increasingly complex with value-adding services distributed across different countries. The concept of multinational business enterprise (MBE) stresses the importance of coordination and orchestration of the network instead of the classical hierarchical control exercised from the headquarter to the subsidiary.

**Trust and power distribution:** While trust between the companies within a network is seen as the requirement for successful learning, knowledge sharing, and commitment; an uneven power distribution and dependencies within the network may mitigate the positive effects of said trust. The concept also argues that to achieve ambidexterity in managing conflicting short-term and long-term goals, the network needs to reduce power asymmetry between headquarter and subsidiary and their dependency.

**Coordination and Governance:** Eventually, the authors argue that coordination and governance is a dynamic process. The MBE learns from experience in line with the classic IPM and eventually arrives at a hybrid model between market (decentralized coordination) and hierarchy (centralized control) for governance and coordination of the connected network companies with building and exploiting trust seen as the critical success factor for the network.

Numerous empirical studies have explored and tested the Uppsala model's propositions across various industries, countries, and contexts (Coviello et al., 2017; Hutzschenreuter & Matt, 2017). Hutzschenreuter and Matt (2017) argue to further investigate the current “black box” of the actual knowledge accumulation and experimental learning process within MNE firms in the context of the internationalization process model. They argue for the importance of the subsidiary portfolio of a MNE and the indirect and reverse effects in learning. While some studies have supported the model's predictions, others have shown mixed results or provided alternative perspectives on firms' internationalization patterns (Santangelo & Meyer, 2017). Empirical research has also highlighted the role of factors like firm-specific advantages, country-specific advantages, industry characteristics, and external market conditions in influencing internationalization decisions (Bonaglia et al., 2007; Dunning, 2006; Mathews, 2006; Mathews, 2002, 2017).

Despite its widespread acceptance, the Uppsala model has not been without criticisms and limitations. Critics argue that the model may oversimplify the complexity of internationalization processes (McDougall et al., 1994), neglecting strategic factors (Dunning, 1988), and assume decision-making rationality (Welch et al., 2016). Additionally, the model may not fully account for the influence of non-linear and

discontinuous factors that could lead to rapid internationalization (Santangelo & Meyer, 2017).

Compared to other prominent IB theories such as the eclectic paradigm (Verbeke et al., 2008), however, the IPM seems to be particularly appropriate for this research due to its focus on firm-level processes, its inclusion of individual-level assumptions and its usefulness for managerial practice (Vahlne & Johanson, 2017; Vahlne & Johanson, 2013). Therefore, it is surprising that the IPM is seldomly used in the context of emerging market MNEs (EMNE) and especially Chinese MNEs (CMNE). We believe this is an oversight, that should be addressed. The IPM has enjoyed multiple revisions and extension over the many years of its existence as summarized above. With the strong focus on the network perspective, it offers a very fruitful theoretical foundation for analyzing the internationalization process of EMNEs and CMNEs, who we would argue rely more on informal networks (*guanxi*) than formalized standards & procedures for internationalization than advanced market MNEs (Buckley et al., 2018; Ramamurti & Hillemann, 2018; Xin & Pearce, 1996). This research aims to do exactly that by applying it in the context of Chinese firms managing their global networks in advanced countries and assesses the role *guanxi* plays in this setting.

#### **4.2.2. Extant research on *guanxi* and Chinese firms' internationalization**

The expansion of Chinese firms into advanced markets has witnessed substantial growth in recent years, signifying China's emergence as a global economic powerhouse (A.T. Kearney, 2018). Analyzing the existing literature shows that much research has been

published on the role of *guanxi* in the success of market expansion and operations of Western MNEs and/or Chinese firms in the context of the Chinese market (Abramson & Ai, 1999; Ahlstrom et al., 2008; Buckley et al., 2006; Gu et al., 2008; Li, 2005; Li et al., 2008; Park & Luo, 2001; Reid & Jallat, 2006; Standifird, 2006; Standifird & Marshall, 2000; Tsang, 1998; Xin & Pearce, 1996). To better understand *guanxi* in different settings, Reid and Jallat (2006) suggest that “[t]he impact of *guanxi* on [...] internationalization may be an area of subsequent study.” (p. 50). However, in this field there has been scarce research conducted on the role of *guanxi* for Chinese internationalization (Zhao & Hsu, 2007; Zhou et al., 2007). Also, here we believe that it is an oversight, that *guanxi* is not more prominently featured in the research of Chinese multinational enterprises’ (CMNEs) internationalization. Therefore, our research aims to address this gap.

As CMNEs venture into complex and competitive advanced markets, understanding the factors that influence the relationship between Chinese headquarter and overseas subsidiary becomes crucial. Among these factors, *guanxi*, a deeply embedded cultural concept in China, has attracted significant attention for its role in shaping governance and strategy decisions (Chen et al., 2013; Du & Zhou, 2019). This literature review aims to provide a comprehensive overview of existing research on the role of *guanxi* in the headquarter subsidiary relationship of Chinese firms in advanced markets.

*Guanxi* influences Chinese firms’ internationalization strategies and behaviors. Emerging markets are different compared to developed markets, and therefore emerging market firms differ from their advanced market counterparts (Cuervo-Cazurra, 2012; Hennart, 2012; Narula, 2012; Ramamurti, 2012). To comprehend the significance of *guanxi* in decision-making processes, it is imperative to establish a clear conceptual understanding. *Guanxi*

represents a web of social connections, reciprocal relationships, and social obligations embedded in Chinese culture (Chen & Glen, 2004; Park & Luo, 2001; Reid & Jallat, 2006). It facilitates trust, information exchange, and resource mobilization among individuals and organizations (Standifird & Marshall, 2000; Xin & Pearce, 1996).

*Guanxi* can be dissected into various components, including *renqing* (favor), *mianzi* (face), and *ganqing* (emotional rapport). *Renqing* reflects the obligation to reciprocate favors, *mianzi* concerns the maintenance of one's social reputation, and *ganqing* encompasses the emotional rapport and trust built within relationships (Luo, 1997b). Understanding these components is crucial for comprehending the nuances of *guanxi* in the context of internationalization.

Existing literature shows that *guanxi* is a critical component of business operations within China, where personal relationships often form the basis of trust and cooperation. Chinese firms leverage *guanxi* networks to gain access to resources, navigate bureaucratic hurdles, and secure business opportunities (Buckley et al., 2006; Fan, 2002; Gu et al., 2008). This local perspective is crucial for understanding how Chinese companies approach internationalization. As Chinese firms expand internationally, the role of *guanxi* undergoes transformation. Researchers have examined how *guanxi* can facilitate market entry, establish partnerships, and overcome the challenges of operating in foreign environments (Chen, 2017; Du & Zhou, 2019). The duality of leveraging *guanxi* both domestically and internationally raises questions about its adaptation and effectiveness in managing cross-border networks.

Despite its apparent significance, to the best of our knowledge, no study has systematically examined how *guanxi* impacts coordination and governance of international company networks led by a Chinese headquarter.

#### **4.3. Research gap and question**

The above analysis of the extant literature on the evolution of the Uppsala internationalization process model and the contextual research on *guanxi* and its role for internationalization points to a notable research gap concerning the specific role of *guanxi* in shaping the headquarter subsidiary relationship of Chinese firms, especially in the context of advanced markets. This research gap is particularly pronounced given the rapid expansion of Chinese firms into advanced markets in recent years. Some industries now face-off against significant Chinese competition. As these Chinese firms engage in increasingly complex internationalization efforts, understanding the role of *guanxi* becomes paramount. Thus, this study seeks to address the following research question:

What role does *guanxi* play in the relationship between Chinese headquarter and European subsidiary; what is the particular role for coordination and governance within that international network?

This research question is grounded in the belief that *guanxi* is a pivotal element of the Chinese business environment, and its effects on international governance warrant thorough investigation. By exploring this question, we aim to provide a deeper understanding of the dynamics between *guanxi* and headquarter subsidiary relationship.

Additionally, we seek to shed light on how *guanxi* may vary in its impact across different settings, further contributing to the literature on emerging market multinationals.

#### **4.4. Methodology**

For this study, we adopted a multiple case study design to explore the role of *guanxi* in headquarter subsidiary relationship at Chinese firms with operations in Europe. Such a qualitative research design is especially appropriate in new research area for the application, extension or development of novel, empirically valid theories (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Yin, 2003). Experiences from previous research on Chinese firms show that it is generally best to obtain sensitive information about governance and strategies through face-to-face interviews (Ahlstrom et al., 2008). Hence, we conducted 45 semi-structured interviews with key decision-makers at 19 Chinese firms.

##### **4.4.1. Sample**

Participating interview partners at the Chinese firms represented different management levels, including the general manager for the international market, the overseas chief sales officer and strategy, marketing, or project directors. On some occasions, we also interviewed the owner, chairman, and CEO of the firm. All our participants have the decision-making power on internationalization. Our data collection process was finished when theoretical saturation was reached, which was indicated by information redundancy (Strauss & Corbin, 1998). The final sample consists of 45 interview partners. Table 7 gives an overview of the final case profiles of this study.

*Table 7: Case profiles*

<b>No.</b>	<b>Profile</b>	<b>Industry</b>	<b>Interview partners</b>
1	Private, mid-sized firm	Construction	(1.1) CEO and Owner (1.2) General Manager, Europe
2	Private, small firm	Professional services	(2.1) Partner and Co-Founder (2.2) Partner and Co-Founder
3	Private, large firm	Telecom supplier	(3.1) General Manager, Europe (3.2) Chief Account Officer (3.3) Sales Director (3.4) Marketing Manager (3.5) Supply Chain Manager
4	State-owned, large firm	Telecom supplier	(4.1) Key Account Manager (4.2) Strategy Manager (4.3) Project Manager (4.4) Commercial Manager
5	Private, small firm	Industrial equipment	(5.1) CEO and Founder (5.2) General Manager, International Business
6	State-owned, large firm	Logistics	(6.1) General Manager, Europe
7	Private, large firm	Electrical equipment	(7.1) General Manager, Europe (7.2) Sales Manager
8	State-owned, large firm	Steel	(8.1) General Manager, Europe
9	Private, large firm	Automotive supplier	(9.1) Chairman and CEO (9.2) Chief of Staff
10	Private, small firm	Electrical equipment	(10.1) CEO and Founder
11	Private, mid-sized firm	Automation	(11.1) General Manager, International Business
12	Private, large firm	Agricultural equipment	(12.1) General Manager, International Business
13	State-owned, large firm	Steel	(13.1) General Manager, International Business
14	Private, small firm	Electrical equipment	(14.1) General Manager, International Business
15	Private, small firm	Biotechnology	(15.1) CEO and Founder
16	Private, small firm	Automation	(16.1) CEO and Founder
17	Private, small firm	Automation & Robotics	(17.1) CEO and Founder
18	State-owned, large firm	Industrial equipment	(18.1) Supervisory board member (18.2) CEO

			(18.3) Vice President, Strategy (18.4) Sr. Director, Post-Merger-Integration (18.5) Director, Strategy (18.6) Director, Marketing (18.7) Project Manager, Strategy (18.8) Senior Advisor
19	Private, mid-sized	Industrial equipment	(19.1) General Manager (19.2) CFO (19.3) Vice General Manager (19.4) Sr. Director, Global Brand Management (19.5) Sr. Director, Global Operations (19.6) Sales Manager (19.7) Project Manager, Strategy (19.8) Product Manager

Note: All participants have decision-making power for the international business operations of their respective Chinese firm. The revenues of the small firms are below USD 100 million; mid-sized firms have revenues ranging from USD 100 million to USD 1 billion; large firms have revenues above USD 1 billion. All Chinese firms investigated here have operations outside of China and at least one subsidiary in a European country. However, most of the mid-sized and large companies operate around the globe.

The next table provides insights into the profiles of the interview partners consulted during this research:

*Table 8: Interview partners profiles*

No.	Name	Background information
1.1	Mr. Shen	Age cluster: A3, experience category: E3, Ph.D. in Europe, previous work experience at a Chinese state ministry
1.2	Ms. Zhao	Age cluster: A3, experience category: E2, responsible for business development in Europe
2.1	Mr. Liu	Age cluster: A3, experience category: E3, M.A. and Ph.D. in Europe
2.2	Ms. Zhu	Age cluster: A3, experience category: E3, M.A. and Ph.D. in Europe
3.1	Mr. Zhang	Age cluster: A2, experience category: E2
3.2	Mr. Schmid	German, age cluster: A3, more than 10 years of prior work experience in China
3.3	Mr. Yang	Age cluster: A2, experience category: E2

3.4	Mr. Wang	Age cluster: A1, experience category: E1
3.5	Mr. Yi	Age cluster: A1, experience category: E1
4.1	Ms. Xu	Age cluster: A1, experience category: E1
4.2	Ms. Zao	Age cluster: A2, experience category: E1
4.3	Mr. Han	Age cluster: A1, experience category: E1
4.4	Ms. Huang	Age cluster: A1, experience category: E1
5.1	Mr. Yuan sr.	Age cluster: A3, experience category: E1
5.2	Mr. Yuan jr.	Age cluster: A1, experience category: E1
6.1	Mr. Zhou	Age cluster: A3, experience category: E3
7.1	Mr. Frei	German, age cluster: A2, prior experience with Chinese firms as suppliers
7.2	Mr. Braun	German, age cluster: A2, no prior experience with Chinese firms
8.1	Mr. Meng	Age cluster: A2, experience category: E2
9.1	Mr. Chen	Age cluster: A2, experience category: E3
9.2	Ms. Yu	Age cluster: A1, experience category: E3
10.1	Mr. Wu	Age cluster: A2, experience category: E1
11.1	Mr. Lu	Age cluster: A2, experience category: E2
12.1	Mr. Feng	Age cluster: A2, experience category: E2
13.1	Mr. Wei	Age cluster: A2, experience category: E1
14.1	Mr. Lei	Age cluster: A1, experience category: E1
15.1	Mr. Peng	Age cluster: A2, experience category: E2
16.1	Mr. Xue	Age cluster: A2, experience category: E2
17.1	Mr. Deng	Age cluster: A2, experience category: E2
18.1	Mr. Ren	Age cluster: A3, experience category: E2
18.2	Mr. Lun	Age cluster: A2, experience category: E2
18.3	Mr. Kurz	Austrian, age cluster: A2, prior experience with Chinese firms only as suppliers
18.4	Mr. Reif	German, age cluster: A2, no prior experience with Chinese firms
18.5	Mr. Lee	Age cluster: A1, experience category: E3, educated in Europe
18.6	Mr. Schwaiger	German, age cluster: A1, no prior experience with Chinese firms
18.7	Ms. Pau	Age cluster: A1, experience category: E1, post-graduate education in Europe
18.8	Mr. Roedl	German, age cluster: A2, several years' experience as management consultant in China
19.1	Mr. Lang	Age cluster: A2, experience category: E2, Ph.D. in Australia
19.2	Mr. Tse	Age cluster: A2, experience category: E2, Hong Kong Chinese
19.3	Mr. Dang	German citizen of Chinese descent, age cluster: A2, experience category: E3, education in Europe

19.4	Mr. Ricci	Italian, Age cluster: A2, no prior experience with Chinese firms
19.5	Mr. Maier	German, age cluster: A3, multiple several years' experience as project manager in China
19.6	Mr. Xi	Age cluster: A1, experience category: E1
19.7	Mr. Hu	Age cluster: A1, experience category: E1
19.8	Mr. Zhi	Age cluster: A1, experience category: E1

Note: Some participants asked for anonymity; hence, all names listed above are pseudonyms. The range of the age clusters are: A1: 25 – 40, A2: 41 – 55 and A3: 55+ years. The years of international experiences are categorized into: E1: 0 – 5, E2: 5 – 15 and E3: 15+ years.

#### 4.4.2. Data Collection

For our research, we relied on in-depth interviews with decision-makers (Flint et al., 2002). Those interviews were semi-structured in order to let the conversation freely develop according to the answers of the informants (Mäkelä & Maula, 2005). On average each interview lasted 75 minutes, with the shortest interview at 20 minutes and the longest at 150 minutes. They were audio recorded in 39 of the 45 occasions. In 6 occasions the interview partner refused the audio recording and notes were taken instead. The interviews were conducted mostly in the native language (Chinese, English, German) of the participant as previous researchers suggest that this allows participants to express ideas more freely and accurately (Guo & Miller, 2010). In a handful cases, where we were not able to speak the native language of the interviewee, English was used.

An interview guideline and an overall description of the research were sent to the participants prior to the interview. The interviews were designed to learn as much as possible about a participant's perceptions, observations, and thoughts related to her or his firm's internationalization to Europe. After the interview, we sent the verbatim transcripts to the interviewees for confirmation and revision.

We supplemented the interviews with several secondary sources to increase the reliability and validity of the data (Miles & Huberman, 1994). For the companies, we analyzed internet/ press information, annual reports, company biographies, and other communication material to become familiar with the company and its industry. These secondary data sources complemented and supported our insights gained through primary data sources.

In one specific case (Case company no. 18), the researcher also attended an offsite of the company as participant and observer in a city in Southern China. The participation had no influence on the case company or the actual conduct of the offsite as the researcher remained in the background as an observer. Thereby a lot of insightful qualitative information was gathered, which would not have been possible through interviews only.

#### **4.4.3. Data Analysis**

For the qualitative data analysis, we used comparative analysis to discover theory that can be derived from the empirical data. The more than 800 pages of transcribed data was analyzed following the open-coding process (Strauss & Corbin, 1998). We reviewed the interview transcripts and the secondary sources (approximately 2000 pages) repeatedly to understand the context of the sources. Codes were identified based on their frequency and contextual significance. The codes were then put together, and their common properties could be found when referring to the context of the transcript. These properties of linked codes provided evidence of several mutually exclusive categories from the data. Finally, linkages between categories were examined. The entire process of coding and interpretations was facilitated by using qualitative data analysis software.

#### 4.4.4. Trustworthiness and Transparency

We assessed trustworthiness by applying the set of nine criteria put together by Flint et al. (2002) that combines two overlapping sets of criteria: one set from interpretive research (credibility, transferability, dependability, confirmability, and integrity) and one set from grounded theory (fit, understanding, generality, and control). Table 9 shows how we addressed each criterion in detail.

*Table 9: Criteria for trustworthiness and transparency*

<b>Criteria</b>	<b>Addressed in this research</b>
<b>Credibility</b> Extent to which the results appear to be acceptable representations of the data	Interviews were conducted with one interviewer and were possible with two interviewers. Interviews and transcripts were done by native speakers.
<b>Transferability</b> Extent to which the findings from one study in one context apply to other contexts	Interviews were conducted only with key informants at the HQ of Chinese firms and/ or European subsidiaries. Theoretical concepts were represented by data from at least the majority of the participants.
<b>Dependability</b> Extent to which the findings are unique to time and place	Participants reflected on past and recent experiences in Europe. Many compared it to experiences they had in China and other markets, such as the United States.
<b>Confirmability</b> Extent to which interpretations are the results of the participants and the phenomenon	Two China-based academic members and one Chinese practitioner acted continuously as auditor and sparring partner for our research, which helped to expand and refine the interpretations.
<b>Integrity</b> Extent to which interpretations result from misinformation or evasion of participant	Interviews were conducted in a professional way. Every interview started with a clear definition of the topic and easy-to-answer warm-up questions. Strict anonymity and confidentiality were promised to the participants, resulting in no evasion of the topic.
<b>Fit</b> Extent to which findings fit with the substantive area under investigation	Concept of <i>guanxi</i> was analyzed in a new setting and captured the dynamics and complexities of the data. Framework of the internationalization process model served as guiding structure for analysis.

<p><b>Understanding</b> Extent to which participants buy into the results as representations of their world</p>	<p>Transcripts were sent to participants for verification. Summary of the results were presented and discussed with some participants, one Chinese practitioner, and two China-based research colleagues.</p>
<p><b>Generality</b> Extent to which findings discover multiple aspects of the phenomenon</p>	<p>Interviews were of sufficient length and openness to capture multiple aspects of the phenomenon. Experience and background of interviewers facilitated the exploration of multiple aspects of <i>guanxi</i>.</p>
<p><b>Control</b> Extent to which organizations can influence aspects of the theory</p>	<p>Participants have direct control of their <i>guanxi</i> and had influence over the relationship between Chinese headquarter and European subsidiary</p>

## 4.5. Results

In this section, we discuss the results of our qualitative research. The findings can be summarized into three buckets: (1) *guanxi* vs formal processes and procedures, (2) knowledge sharing, and (3) coordination and governance.

### 4.5.1. *Guanxi* vs formal processes and procedures

We discussed with our interview partners how *guanxi* relationships between individuals in headquarter and subsidiary contrasts to formal company processes and procedures and in which occasions the former is preferred to the latter. Here, we found a strong consensus within our sample that the advantages of *guanxi* can be found in its quickness and effectiveness. Some referred to it as using the backdoor practice, i.e. *zuohuomen*, meaning using shortcuts to get things done quickly and easily through personal relationships (Standifird & Marshall, 2000). We would like to use the words of Mr. Dang, Vice General

Manager at a mid-sized industrial equipment manufacturer, to illustrate this point when asked to elaborate on *guanxi* in the context of international intercompany collaboration:

*“Of course, guanxi is important for working internationally within our company. The distance and time difference makes it harder for us to collaborate. Of course, we also use modern management practices to run our business. But sometimes you need to react quickly overseas to take advantage of an opportunity. In this case, if you have a relationship with the management in China, things can get resolved faster and easier.”*  
(Case 19; Interview partner 19.3)

However, the use of *guanxi* for backdoor practice has its limitations too. Firstly, there needs to be existing *guanxi* with key decision-makers in the Chinese headquarter present in the first place. Secondly, the use of the backdoor mechanism as substitute for the formal process can only be used in limited occasions as to not overstress the relationship (Luo, 2007). Hence, it should be seen more as “break glass in case of emergency” measure than the replacement of the daily process & procedures. Yet, the outcome of the absence of any *guanxi* with the headquarter, can make collaboration more cumbersome as demonstrated in the case of Mr. Ricci, an Italian with no prior experience with China and Chinese firms and working at the same company as Mr. Dang:

*“I found it very difficult to collaborate with our Chinese colleagues in the Marketing department. I would send them e-mails with my ideas and proposals. First in English but I didn’t get any reply. Afterwards I asked a junior Chinese colleague to translate my e-mails to Chinese and I resend them, but still no response from the headquarter. In the end, I had to go to our General Manager and have him speak with the Chinese colleagues in [Chinese Tier 2 city, where the HQ is located] to finally get a*

*response. In the end, they actually liked my ideas, but why didn't they reply to me in the first instances?" (Case 19; Interview partner 19.4)*

In our data, we also discovered a clear discrepancy between small and mid-sized/ large firms. The former (seven companies) relied strongly on *guanxi* between individuals at the subsidiary and the headquarter as management processes were less formalized, whilst at the latter (twelve companies), *guanxi* still played an important role as described above, but formal processes were generally the preferred path for interactions between headquarter and subsidiary.

In summary, we stipulate the following two propositions from our analysis:

**Proposition 1:** *Guanxi* plays a more important role than formal processes for interactions between individuals of headquarters and subsidiaries at smaller Chinese firms than at mid-sized & larger Chinese firms.

**Proposition 2:** At mid-sized and large Chinese firms, *guanxi* is used as a backdoor mechanism for easier and quicker results than with formal processes, however, its use is limited to rare occasions.

#### **4.5.2. Knowledge sharing**

The second aspect we explored is the role of *guanxi* for knowledge sharing within a company network, i.e., between subsidiary and headquarter. According to the revised internationalization process model, both the subsidiary and headquarter are insiders of the same network. Therefore, liability of outsidership should not exist in this kind of setting

(Johanson & Vahlne, 2009). Indeed, most information and knowledge about the advanced market was freely exchanged between the European subsidiary and the Chinese headquarter in our case studies. Even though, there were some language and cultural barriers in the case the European country manager was not Chinese or of-Chinese-origin, this was (partially) mitigated through intercultural and language training. For example, company 18, a large state-owned enterprise that acquired a European company, hired external consultants and coaches to train the European colleagues in the Chinese way of doing business including learning about the concept of *guanxi*. They were also taught Chinese language and culture through selected Chinese teachers. Other companies in our sample used intermediaries, such as junior staff with command of both the European and Chinese language, as mediators and interpreters between the Chinese HQ and European subsidiary. Those two approaches were also used concurrently or in sequence.

However, we discovered that some sensitive knowledge and information was only shared when strong *guanxi* ties between the individuals in the subsidiary and headquarter was present. This more critical information included (i) business failures, (ii) controversial business practices, and (iii) novel & unconventional ideas. Our interview partners mentioned (i) and (ii) to us outside of the formal interview and with the promise to not be recorded or cited even under the already granted protection of anonymity. Luckily for (iii), we can use words of Mr. Zhang to illustrate the idea of this concept:

*“I will share only a very limited amount of information about what I’m learning in Europe with my colleagues in China. One time, I discovered that a new sales tactic is working well in Europe. [...] That tactic may also help our company in other international markets or even in China. [...] I cannot be too transparent about it with China. I have it as*

*arrow in the quiver. But I will share this information with one colleague in China, who I have strong guanxi ties with. I trust him fully and know that he will not use my information against my interest, and he is also helping me with privileged information from China.”*  
(Case 3; Interview partner 3.1)

The importance of *guanxi* for the dissemination of sensitive information can be explained by the trust component that is embedded in it (Song et al., 2012). This type of information is considered too controversial or novel to be openly shared between the European subsidiary and the Chinese headquarter and requires a strong *guanxi* relationship between sender and receiver instead for it to be communicated (Kriz & Keating, 2010). Interestingly, in our sample, hierarchy was not a sufficient substitute for said *guanxi* ties, which means that this type of information was also not shared with a supervisor in China when no *guanxi* was present.

Hence, we summarize this finding in the below proposition:

**Proposition 3:** For sensitive information, i.e. knowledge of failures, controversial business practices, and/or novel & unconventional ideas, to be shared between European subsidiary and Chinese headquarter, strong *guanxi* ties are required.

#### **4.5.3. Coordination and governance**

The next theme we would like to discuss is coordination and governance, which were emphasized by Vahlne and Johanson (2021) as key components for a multinational business enterprise (MBE) in a global network. Coordination is of particular importance as

MBE face an increasingly complex environment that is also constantly changing and evolving (Vahlne & Johanson, 2017). What was working in one market today may not lead to the same success in same market tomorrow. Governance also plays an important role as humans try to avoid uncertainty and prefer to interact with partners that are familiar and known. Hence, coordination and governance between the firms in a network or in our case headquarter and subsidiary is of utmost importance for constant learning and adaption (Vahlne & Johanson, 2021).

The role of *guanxi* here is seen firstly in placing people of trust in leadership positions at the overseas subsidiaries. For example, at company 18, a large Chinese state-owned enterprise (SOE) that acquired a publicly listed European company with multiple billion Euro of revenue, a Chinese lawyer was added as a new member to the board of directors (supervisory board of a German *Aktiengesellschaft*) of the acquired company. That person did not have any knowledge of the industry or specific functional expertise that would have complemented the existing skillset on the board, but instead has enjoyed a very trustful relationship through her close *guanxi* ties with the Chairman of the parent Chinese SOE for many decades. In the introduction of that person to the European management team, the Chairman referred to her main qualification for the board appointment as “*very good command of English* [she received her master’s in law from an American university] *and decade-long loyal support of* [the Chinese SOE]”.

Another example for the importance of *guanxi* for leadership appointments at overseas subsidiaries is our case 5, a small private industrial equipment manufacturing company that invested in a subsidiary in Central Europe. When asked about what influenced the decision

about leadership appointments at the European subsidiary, Mr. Yuan Sr., the CEO and founder of the company, elaborated:

*“We have three people in management positions at [our European subsidiary]. Our Head of Sales is Austrian. He doesn’t speak any Chinese but knows the customers in Europe. The Head of Finance is an Austrian citizen of Chinese origin. He worked many years for Philipps and speaks both, Chinese and German. The General Manager is someone from [the hometown of Mr. Yuan Sr.]. He is a very capable business man and I have known him since middle school.”*

We continued to ask Mr. Yuan Sr. why the appointment of someone from his hometown was important to him. He went on to explain:

*“We, [people from his hometown in Jiangsu province] are a close-knit community. We have our own special dialect and customs. And I have guanxi with all important people in [his hometown]. [...] Europe is our most important overseas market. Second one is US and I have a similar management structure in our subsidiary in the US. Our industry is fast-moving and very competitive. I need someone who I know and can trust in the overseas’ leadership position. It’s very important. The leader needs to speak the same language as me and understand me fully. I cannot accept any misunderstandings or mistakes due to cultural differences or language difficulties.” (Case 5; interview partner 5.1)*

Further secondary research about Mr. Yuan Sr. company and his hometown, revealed that people from his hometown have formed strong overseas communities in specific cities of Western countries. It happens to be that the European and the US subsidiary were exactly

located in cities where our research showed that a strong diaspora community of their hometown exists.

Therefore, we summarize our findings in the below two propositions:

**Proposition 4a:** People with strong *guanxi* ties with the main decision-maker at the Chinese headquarter are appointed to leadership position in Europe despite sometimes lacking objective qualifications such as industry experience or functional expertise.

**Proposition 4b:** Strong *guanxi* ties between the leaders in the Chinese headquarter and European subsidiary increase trust and reduce friction in the collaboration between the two companies.

As laid out in the above section, Chinese firms tend to have a *guanxi* network in place between the leaders of their overseas subsidiaries and key executives in the Chinese headquarter. In the following section, we will further explain how this *guanxi* network supports the coordination and governance of those companies.

Revisiting our case 18, the Chinese SOE is invested in a handful of international companies in the USA, Germany, Italy, and France. Those are complemented by around a dozen of acquired companies & subsidiaries in China. The SOE organizes formal, weeklong gatherings of all its global leadership (“Top 100 meeting”) at selected locations in China twice a year. The author of this research was able to attend one of these offsites in a coastal city in Southern China as a participant and observer. At these venues, the chairman gives high-level strategic guidance to the group as part of his keynote address. However, those

are not specific to any strategic challenges or opportunities of the overseas or domestic companies but are rather directional and aspirational in nature. What is more important for the strategic direction of international subsidiaries are the informal events during these offsites, which include lunches/ dinners and cultural events, where the chairman spends time with each of the Chinese leaders of his international companies individually or in small groups to discuss important strategic topics such as investments decisions or new product introductions. Those Chinese overseas leaders are also connected with the chairman through social media platforms like WeChat and regularly visit China not just for formal business meetings but also for other occasions, such as Chinese New Year, which typically then include spending time with the chairman privately to discuss business matters. Through those informal *guanxi* ties, the chairman controls the strategic direction of his international companies directly, as well as coordinates between those subsidiaries by, for example, inviting multiple subsidiary leaders to a social event to resolve pressing strategic topics in a group setting. As previously mentioned, the SOE also provided language and cultural training to the non-Chinese executives of the international companies with the aim that those will eventually be able to become insiders in the global *guanxi* network at one point in time. In addition, it is important to note, that those Chinese leaders at the overseas companies had a long-standing tenure with the SOE as did the chairman himself. Those typically exceeded one decade with the group. The tenure of the non-Chinese executives was typically somewhere between 3-7 years.

At some of the smaller companies in our sample, we even encountered *qinren guanxi* (i.e., ties with people with whom you have a bond by blood or connected by family or marriage), between the chairman or CEO of the Chinese group and the leader of the overseas

subsidiary. For example, the interview partner 1.2 in our case 1, a private construction company, was related to the CEO and owner of the company (interview partner 1.1). The same was the case with our case 2, a small professional services firm, where the two interview partners were married (interview partner 2.1 and 2.2). There, the second interview partner is now based in California to start-up the new US business. Similarly, our case 5, a small private equipment manufacturer, the CEO & founder (interview partner 5.1) was the father of the General Manager, International Business (interview partner 5.2). The latter first opened-up and led the European subsidiary before moving on to repeat the same approach in the United States. With those *qinren guanxi* ties, overseas business topics naturally become intermingled in the daily or weekly personal interactions of those (extended) family members and facilitate coordination and governance between the Chinese headquarter and the overseas subsidiary (Luo, 1997b).

In conclusion, we would like to summarize our findings in the below proposition:

**Proposition 5:** *Guanxi* between the Chinese leaders of the overseas subsidiaries and the leader in the Chinese headquarter is used to facilitate coordination and governance within the global network.

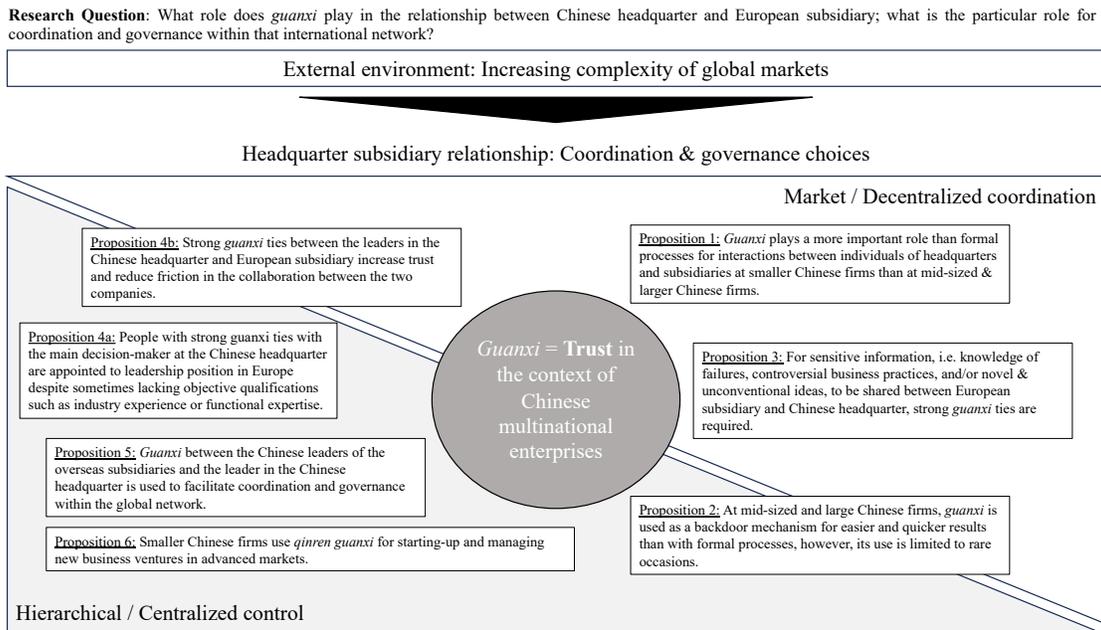
**Proposition 6:** Smaller Chinese firms use *qinren guanxi* for starting-up and managing new business ventures in advanced markets.

#### **4.6. Discussion and conclusions**

This research holds substantial significance for both academia and practitioners. Academically, it contributes to the existing body of literature on emergent market multinational enterprises' internationalization by filling the research gap related to *guanxi* and Chinese MNEs (Ramamurti & Hillemann, 2018). To date, there has been great interest in Chinese MNEs, with hundreds of articles published in leading IB journals. At a conceptual level, it is suggested new theory may be required to explain Chinese MNE activities. This research shows that the IPM may also be more relevant to explaining CMNEs than previously recognized. This is because the updated IPM turns our attention to focus strongly on “networks” (Vahlne & Johanson, 2017). This perspective is compatible with the *guanxi*-centric approach that this research laid out, Chinese firms use to manage their headquarter subsidiary relationship. It extends our knowledge of how cultural and relational factors shape the coordination and governance choices of Chinese firms, providing a nuanced understanding of the role of *guanxi* in relation to formal standards and procedures, knowledge sharing across international companies and leadership appointments. Practically, the findings of this study can offer valuable insights to Chinese firms aiming to expand their global footprint, as well as foreign firms seeking to collaborate with or compete against Chinese counterparts.

To summarize, the propositions of our research are illustrated in figure 4 and mapped to the principles of the extended internationalization process model of 2021 (Vahlne & Johanson, 2021).

Figure 4: Our propositions mapped to the extended IPM of 2021



Our research confirms the notion of Vahlne and Johanson (2021) that trust is in the center of the headquarter subsidiary relationship and its coordination & governance choices, only in our specific context of Chinese firms, trust essentially equates to *guanxi* (Chua & Morris, 2006). In our sample, we encountered strong *guanxi* ties, which can be classified as *shuren guanxi* (ties with people you know or are connected to you by an already identified tie, i.e., schoolmates, known to both). We even came across the strongest form of *qinren guanxi* with the small companies in our sample. Both strongly influenced strategic choices about governance, leadership appointments, information sharing and collaboration. In a way some of the larger companies in our research already exemplified what Vahlne & Johanson (2021) described as a target state for the MBE in a hybrid approach between hierarchy and market. With *guanxi* as the center point in the headquarter subsidiary relationship those companies manage the trade-offs between hierarchy/ centralized control and market/ decentralized coordination on a constant basis.

On the hierarchical/ centralized spectrum, we would clearly plot propositions 4a, 5, and 6 of our research. All three of them have the common thread that *guanxi* is used to ensure a strong control of the subsidiary from the Chinese headquarters. Our proposition 4a and 6 essentially mean that primarily *shuren* or *qinren guanxi* matter for leadership appointments at overseas subsidiaries. The choice for *guanxi* goes above other “market” qualifications, such as industry expertise, functional skills, or international leadership qualities. However, it ensures on the other hand the direct control of the subsidiary and trust of the China-based leadership. Proposition 5 basically excludes foreign managers from operating in the same efficient and effective manner within the global *guanxi* network of the Chinese MNEs as Chinese managers can do (Lovett et al., 1999). Even though efforts were made at one of our companies in our sample to induct these Western managers to the “Chinese way of doing business”, there is still a long way to go for them to become actual insiders in a Chinese network. Thereby ensuring that the Chinese MNE stays Chinese in its core with strong control from the Chinese HQ despite its sizeable number of acquisitions of Western companies.

We found two propositions in-between the two poles of “hierarchy” and “market”. These are propositions 2 and 4b. The former means that *guanxi* with the Chinese HQ is used to unlock issues and get quick resolutions through applying the backdoor mechanisms with the strong backing from the HQ, which essentially has a strong hierarchical component to it – the HQ is required when it really matters and allows the subsidiary to go off script. On the flipside, our research showed that this back door approach is only used in rare occasions, which may suggest a general high degree of decision autonomy at the European subsidiaries of larger Chinese MNEs. The latter proposition has a similar feel to it. On one

hand, strong *guanxi* ties with the Chinese headquarter is required for high degree of trust and frictionless operations; on the other hand, if those *guanxi* ties are in place, the European subsidiary enjoys a high degree of autonomy in its day-to-day operations.

Finally, on the market/ decentralized coordination axis, we placed the remaining two propositions of our research: proposition 1 and 3. With smaller Chinese firms we saw that *guanxi* acted as replacement of many formal processes and procedures. As *guanxi* is always something multifaceted and bi-directional (Luo, 1997b), this implies that depending on the relationship, the power balance and degree of autonomy may tilt strongly towards the subsidiary as a hierarchy is not formalized in processes & procedures. Let's take for example our case 5 to illustrate this point: the head of the overseas subsidiary is the son of the founder and CEO of the company. Due to his *guanxi*, he would hold a very powerful position when negotiating with the Operations or Supply Chain department of the company in China when it comes to prioritizing product shipments to his foreign market. Additionally, proposition 3 demonstrates that the European subsidiary controls which information is shared with the Chinese HQ. Only when strong *guanxi* ties are existent, all information is shared with the parent company (Fu et al., 2006).

Ultimately, this discussion illustrates how important *guanxi* is for Chinese MNEs to manage their global network of firms. The following two sections dive deeper on contributions of this research to theory and practice.

#### **4.6.1. Theoretical implications**

We answered the research questions of “What role does *guanxi* play in the relationship between Chinese headquarter and European subsidiary; what is the particular role for coordination and governance within that international network?” with our data from 19 cases and derived six propositions from it. Those propositions make contributions to research that is further outlined below.

Academically, it contributes to the existing body of literature on international headquarter and subsidiary relationship by filling the research gap related to *guanxi*. It extends our knowledge of how cultural and relational factors shape how Chinese firms manage their overseas subsidiaries, providing a nuanced understanding of the interplay between culture and formal governance.

Our study is one of the few to offer insights from data from Chinese firms with overseas subsidiaries in advanced markets. It sheds light on Chinese management and governance practices and the formal and informal ways of coordination between international markets and headquarter. While providing specific insights in the Chinese context, it enriches at the same time existing international business theory (Buckley et al., 2018). We would also argue that it creates boundary conditions for classical paradigm (Hernandez & Guillén, 2018), in our case the Uppsala internationalization process model (IPM). We used the main ideas of Vahlne and Johanson (2021) that conceptually discuss the importance of trust for international network governance and coordination within the IPM in light of coping with increasing global complexity; and applied and extended it in the context of a multi-case-study research from 45 decision-makers from 19 Chinese firms with operations in Europe. Our research also zooms in on the individual, which Schweizer and Vahlne (2022) argue in their conceptual paper, may account for non-predictable and disruptive outcomes. In line

with this, our empirical research adds more of the needed realism (Vahlne & Johanson, 2020; Vahlne & Schweizer, 2022) to the internationalization process model by detailing (i) how *guanxi* is used in contrast to formal coordination mechanisms, (ii) its importance as backdoor mechanism at smaller Chinese companies, (iii) how strong *guanxi* ties are a prerequisite for certain information to be even transmitted between subsidiary and headquarter, (iv) how *guanxi* establishes trust between the Chinese leader in the headquarter and the leader of the overseas subsidiary and thereby influences the decision about leadership selection, and (v) how *guanxi* is applied as mechanism for informal coordination and governance between Chinese headquarter and overseas subsidiary.

In addition, we bridge the literature on Emerging Economy firms' internationalization and the Uppsala internationalization process model by contextualizing the important aspects of informal and formal mechanisms of coordination and control between networked companies from the perspective of the Chinese firm and thereby support the notion of Ramamurti and Hillemann (2018) that Chinese MNE internationalization has its own distinct features.

Also, in terms of methodology we used a qualitative approach, which Vahlne and Johanson (2017), argue is preferred over quantitative research methods for the internationalization process model. Through our case studies we added more nuances and detail to the IPM in the context of Chinese firms and *guanxi* than possible with a quantitative approach.

Lastly, this work adds to the stream of research on *guanxi* and social network ties in general. It is one of the first papers to investigate the role of *guanxi* within Chinese firms' and their overseas subsidiaries. Our research considers the characteristics of *guanxi* and

uses the extant research to dissect *guanxi* into different elements in order to apply it in the different cultural context of Europe. Hence, our research offers a first step to take a dynamic view on a concept, which results from Chinese culture but is taken into modern business environment (Reid & Jallat, 2006). Our findings provide insights into which elements of *guanxi* influence coordination and governance decisions and give propositions about their impact and importance (Zhang & Keh, 2010). Our findings also support some of previous findings on *guanxi*. For example, in line with the work of Standifird and Marshall (2000), our data also indicates a transaction cost advantage of the *guanxi* system in global governance. When a *guanxi* network is well-developed, it has significant transaction cost advantage in terms of reduced environmental and behavioral uncertainties and opportunistic behavior, which becomes even more important in the increasing complexity of global markets. Su et al. (2007) found that *guanxi*-oriented internal management, i.e. fostering good interpersonal relationship among managers, can facilitate information flow, leading to a higher level of mutual understanding, trust, and loyalty. This was supported by our data as well. Our proposition 3 suggest that *guanxi* is required for the most sensitive information to be shared between subsidiary and headquarter and thereby enable the reverse learning within the IPM (Hutzschenreuter & Matt, 2017). Also, the long tenure of the Chinese executives within our case company no. 18 is clear empirical indication for strong company loyalty.

#### **4.6.2. Managerial implications**

Practically, the findings of this study offer valuable insights to Chinese firms aiming to expand their global footprint, as well as foreign firms seeking to collaborate with or compete against Chinese counterparts.

The propositions we have derived in this research describe and explain how *guanxi* affects how Chinese companies manage, govern and coordinate with their subsidiaries in advanced markets. Emerging market firms can understand from this research their own bias when managing their own international subsidiaries. We saw a strong influence of the *guanxi* of Chinese leader in determining leadership appointments at the foreign subsidiary. This may not be the best approach for managing the business in advanced markets, as it may not put the best qualified person in the leadership position. Also, using *guanxi* as a backdoor mechanism to accelerate and facilitate decision-making in the headquarter may increase the speed and agility of Chinese firms abroad, but may also lead to wrong decisions with costly consequences due to information bias. A more formalized and objective decision-making process may yield better results long-term. The strong importance of *guanxi* for strategic coordination and global governance excludes non-Chinese managers from participation and may thereby limit the success Chinese firms may eventually have in highly competitive advanced markets. On the other hand, the comprehensive language and cultural training program that one of companies in our sample set-up for their acquired European subsidiary can be considered as best-practice. The learning should work bi-directionally, meaning that the leaders of the advanced market firm within the network should also be open to learn from the emerging market firm.

Our research results also provide important insights for advanced market firms. Established Western firms need a clear picture of how *guanxi* influences the governance and

coordination of overseas subsidiaries of Chinese newcomer firms to be able to react accordingly to the new competition. The strong reliance on *guanxi* for the appointment of overseas leadership and the closed circle nature of the global *guanxi* network of Chinese leaders, gives incumbent Western firms hope that their best talent is not likely to be poached away by Chinese competitor or if it is the case, at least not easily integrated in their global governance and management structure.

#### **4.6.3. Limitations and future research**

The propositions of this research and its limitations suggest some fruitful directions for future research.

Firstly, in this research we used the internationalization process model as the mainstream theoretical grounding for our *guanxi* research. Further studies could apply the same idea to other classical theories such as the eclectic paradigm to test how the concept of *guanxi* can be applied and help extend the existing theories. Even though the IPM appears to be particularly suitable for the context of *guanxi* due to its network perspective, it does not preclude applying other mainstream IB theory to context of *guanxi*. On contrary, due to the complexity and multifaceted nuances of *guanxi* there are many other aspects of *guanxi* that be better suited for other theories. Through the network perspective of the IPM, the focus was particularly strong on the process aspects of *guanxi*.

Secondly, this research was conducted with Chinese firms and their decision-makers in focus. A similar study could be conducted with individuals from other emerging markets at the focal point of analysis. This could be combined with shifting the focus to emerging

markets instead of advanced markets. It would be worthwhile to explore if similar results can be found in those settings. The aspect of culture also played an important role in our findings. Hence, it would be worthwhile to investigate how different cultural settings (e.g. high-context vs. low-context cultures) change the outcome of our research.

Finally, in terms of methodology, a quantitative or mixed-method approach would be useful to test the propositions derived in this paper. Also, a longitudinal study could discover the intricacies of a long-term evolution of *guanxi* in an international setting. Even though a theoretical sampling approach was applied with our data, more empirical research is needed to further validate the propositions of our research.

## 5. Overarching conclusions

This thesis has presented a comprehensive exploration of the impact of the Chinese way of doing business on internationalization. The journey through this research has applied and extended the internationalization process model in the context of the role of *guanxi* for Chinese firms venturing to advanced economies, culminating in a series of significant findings and contributions to the field, which are summarized below.

### 5.1. Key findings

Overall, we can say that our research shows that the IPM may be more relevant to explaining CMNEs than previously recognized. This is because the updated and expanded IPM turns our attention to focus strongly on “network”. The evolutionary process element of the IPM is also very much in line with the catching-up process that CMNE go through when expanding to advanced markets. As a foundational theory it also gives great latitude in the application of its core principles, so that when used in the context of CMNEs and *guanxi* it provides certain guardrails but does not restrain the research scope.

In the following section we are summarizing the most important findings from the chapters 2, 3, and 4.

#### 5.1.1. Internationalization decisions of Chinese firms to advanced markets

Firstly, when zooming in on the concept of **psychic distance**, we see that *guanxi* is an important factor for country selection. Our cases suggest, it may lead to outcomes that are contrary to the predictions of the early internationalization process model, but consistent

with the updated “network” view of the IPM (Johanson & Vahlne, 2009). The updated IPM network perspective highlights how an MNE may make the move to a seemingly distant market (culturally, institutionally etc.) in a rapid fashion (contrary to the original IPM). We found that the Chinese firm may select a country as their first host market with high psychic distance. The main reason for this outcome, our interviews revealed, relates to the *guanxi* of the Chinese decision-maker. Chinese MNEs typically rely less on formal procedures and standards than their Western counterparts as they are not yet in mature development state (Ramamurti & Hillemann, 2018; Xin & Pearce, 1996). In this specific context, the personal opinion of the Chinese individual at the top of the CMNEs can easily dictate location decisions and thereby mitigate the uncertainties from high psychic distance. We featured this theme with the mentioned case companies 6, 9, 10, and 11 in the previous results section, however, this phenomenon was also discovered at additional seven companies of our sample, thereby making it the majority of our 19 case studies, where this theme emerged from the data.

Secondly, when it comes to **learning and commitment**, we see multiple effects of *guanxi* on this concept. In our cases, we discovered that *shengren guanxi* is an important lever for learning, while *shuren guanxi* is required for the eventual deeper commitment to the host country in form of further investments. Also, here individuals play the key role as they either actively seek new *guanxi* in the host country or rely on *guanxi* to support their investment decision. This finding adds a lot of nuance and detail to a key component of the IPM. It supports the component of trust that the IPM postulates as necessary requirement for learning and commitment (Johanson & Vahlne, 1977, 2003; Vahlne & Johanson, 2017). In our case, *guanxi* can be seen as equivalent to trust. Here, *shengren guanxi*, a weaker

trust level may be sufficient for learning, but for actual commitment, *shuren guanxi* with strong levels of trust is required. Our research also answers the call of Vahlne and Johanson (2020) by bringing the psychological characteristics of decision-makers to the forefront; in our case these being the individual preference of Chinese leaders in CMNEs and thereby adding more realism and nuance to the IPM. Previous research on *guanxi* has confirmed the importance of it for learning and making commitment decisions in the Chinese market context (Chen et al., 2013; Gu et al., 2008; Standifird & Marshall, 2000; Xin & Pearce, 1996), but we believe our research provides more decomposition to the concept and is only one doing this in the setting of internationalization to advanced markets.

Thirdly, regarding **market knowledge & network relationship**, we came across two insights from our cases. *Shengren guanxi* helped the management of the Chinese firm to learn about market opportunities, the political and social landscape of the host country, as well as competitive moves from Chinese competition. Specifically for network relationship, we discovered in the specific cases of Chinese firms owning an equity stake in a European firm, that *guanxi* is used to cultivate Europeans to the Chinese way of doing business and thereby helping the Chinese parent company with easier absorption of technological and management know-how of the European partner. Again here, are adding a lot more nuanced insights into the actual conduct of CMNEs abroad and thereby answering the call for dedicated research on the CMNE context (Ramamurti & Hillemann, 2018) as well as the added realism (Vahlne & Johanson, 2020) and focus on the individual decision-maker (Schweizer & Vahlne, 2022) to the IPM.

### **5.1.2. Overcoming liability of outsidership**

Based on the results of our case study research, we propose two models that extend the theory on social network ties and business network theory and contrast the differences of the former when working in a Chinese versus a developed country environment. The two models take a step beyond our data and speculate on cause-and-effect relationships of the constructs examined in our research. Hence, it demands further validation (e.g., through large samples and/or longitudinal studies).

Our first model posits that for overcoming LoO in Europe, which stems mainly from mistrust about Chinese firms, *guanxi*-like relationships with executives of the new business network have to be established for the firm to become an insider. We argue based on our 17 cases that the key to this is establishing cognitive and affect-based trust as well as positive commitment with the new customer in the developed market. In order to achieve that a rather lengthy process of experiential learning about relationship-building in the West is required. In addition, to overcome the initial mistrust, Chinese firms need to be competitive in terms of quality in their field and to focus on tactics that help to offset this mistrust and further build cognitive-based trust. The competitive strategy of the firm can support this relationship-building process by focusing on delivering high customer value and exceeding the expectations of the client. In some of our cases this was achieved through excellence in customer service. In developed countries those *guanxi*-like relationships function as a relationship marketing tool that supports customer retention, which again further strengthens the relationship in the business network. Contrary to our initial expectation and previous research, leveraging the existing Chinese business and institutional network is in general less important for first-wave market entrants engaged in relationship-building with Westerners in the process of becoming an insider. In addition to

that, the transferability of knowledge about relationship building process from China or other emerging markets is limited.

Secondly, extant research found, *guanxi* and *guanxi*-like relationships to be usually preceded by intertwined cognitive and affect-based trust and positive motivation for commitment (Chua et al., 2008; 2009; Lee & Dawes, 2005). Our findings suggest that the relationship between *guanxi* and trust changes its sequence in Europe. The second model illustrates this difference in the relationship between social network ties and trust. It posits that in China, affection or *ganqing* is the first step in building a relationship with strangers. This affectionate connection may be achieved through commonalities such as mutual friends or the same Alma Mater. *Ganqing* allows a so-called *shuren guanxi*, a *guanxi* relationship with a familiar person, to be established. When managed well, we argue that this type of relationship further establishes cognitive and affect-based trust, which are prerequisites for business opportunities. The business relationship then allows for positive commitments to take place. After a while this *shuren guanxi* then may eventually become a *qinren guanxi*, a family or clan-like *guanxi* relationship. In Europe the situation is different. As described, managers of Chinese firms need first to overcome the mistrust by establishing cognitive trust. By performing well in the initial business relationship, the Chinese manager gets the chance to add affect-based trust and positive commitment to the relationship. Once these elements are added, a *guanxi*-like relationship is achieved, which finally allows the Chinese manager and its firm to become an insider. The statements of our interview partners indicated that the closing of this relationship-building process for Chinese managers usually takes significantly longer in Europe than in China. However, this situation may change as more Chinese firms establish a presence in Europe.

### 5.1.3. Headquarter subsidiary relationship

Firstly, our research confirms the notion of Vahlne and Johanson (2021) that trust is in the center of the headquarter subsidiary relationship and its coordination & governance choices, only in our specific context of Chinese firms, trust essentially equates to *guanxi* (Chua & Morris, 2006). In our sample, we encountered strong *guanxi* ties, which can be classified as *shuren guanxi* (ties with people you know or are connected to you by an already identified tie, i.e., schoolmates, known to both). We even came across the strongest form of *qinren guanxi* with the small companies in our sample. Both strongly influenced strategic choices about governance, leadership appointments, information sharing and collaboration. In a way some of the larger companies in our research already exemplified what Vahlne & Johanson (2021) described as a target state for the MBE in a hybrid approach between hierarchy and market. With *guanxi* as the center point in the headquarter subsidiary relationship those companies manage the trade-offs between hierarchy/ centralized control and market/ decentralized coordination on a constant basis.

On the hierarchical/ centralized spectrum, we would clearly plot propositions 4a, 5, and 6 of our research. All three of them have the common thread that *guanxi* is used to ensure a strong control of the subsidiary from the Chinese headquarters. Our proposition 4a and 6 essentially mean that primarily *shuren* or *qinren guanxi* matter for leadership appointments at overseas subsidiaries. The choice for *guanxi* goes above other “market” qualifications, such as industry expertise, functional skills, or international leadership qualities. However, it ensures on the other hand the direct control of the subsidiary and trust of the China-based leadership. Proposition 5 basically excludes foreign managers from operating in the same efficient and effective manner within the global *guanxi* network of the Chinese MNEs as

Chinese managers can do (Lovett et al., 1999). Even though efforts were made at one of our companies in our sample to induct these Western managers to the “Chinese way of doing business”, there is still a long way to go for them to become actual insiders in a Chinese network. Thereby ensuring that the Chinese MNE stays Chinese in its core with strong control from the Chinese HQ despite its sizeable number of acquisitions of Western companies.

We found two propositions in-between the two poles of “hierarchy” and “market”. These are propositions 2 and 4b. The former means that *guanxi* with the Chinese HQ is used to unlock issues and get quick resolutions through applying the backdoor mechanisms with the strong backing from the HQ, which essentially has a strong hierarchical component to it – the HQ is required when it really matters and allows the subsidiary to go off script. On the flipside, our research showed that this back door approach is only used in rare occasions, which may suggest a general high degree of decision autonomy at the European subsidiaries of larger Chinese MNEs. The latter proposition has a similar feel to it. On one hand, strong *guanxi* ties with the Chinese headquarter is required for high degree of trust and frictionless operations; on the other hand, if those *guanxi* ties are in place, the European subsidiary enjoys a high degree of autonomy in its day-to-day operations.

Finally, on the market/ decentralized coordination axis, we placed the remaining two propositions of our research: proposition 1 and 3. With smaller Chinese firms we saw that *guanxi* acted as replacement of many formal processes and procedures. As *guanxi* is always something multifaceted and bi-directional (Luo, 1997b), this implies that depending on the relationship, the power balance and degree of autonomy may tilt strongly towards the subsidiary as a hierarchy is not formalized in processes & procedures. Let’s take for

example our case 5 to illustrate this point: the head of the overseas subsidiary is the son of the founder and CEO of the company. Due to his *guanxi*, he would hold a very powerful position when negotiating with the Operations or Supply Chain department of the company in China when it comes to prioritizing product shipments to his foreign market. Additionally, proposition 3 demonstrates that the European subsidiary controls which information is shared with the Chinese HQ. Only when strong *guanxi* ties are existent, all information is shared with the parent company (Fu et al., 2006).

Ultimately, this discussion illustrates how important *guanxi* is for Chinese MNEs within the theoretical framework of the IPM. The following two sections dive deeper on contributions of this research to theory and practice.

## **5.2. Theoretical implications**

The insights gained from this study extend the boundaries of knowledge of the Uppsala internationalization process model (IPM) as well as our understanding of Chinese firms' *guanxi* in the new context of developed markets. Below is a summary of the key theoretical implications from this thesis.

This research contributes to the existing body of literature on internationalization strategies, overcoming liability of outsidership, and headquarter subsidiary relationships by filling the research gap related to *guanxi*. It extends our knowledge of how cultural and relational factors shape the internationalization choices of Chinese firms, providing a nuanced understanding of the interplay between culture and business strategy.

This study is one of the few to offer insights from data from Chinese firms expanding into advanced markets. It sheds light on Chinese management practices and its decision-making about international markets, while at the same time enriching existing international business theory (Buckley et al., 2018). We would also argue that it creates boundary conditions for classical paradigm (Hernandez & Guillén, 2018), in our case the IPM, by applying and extending it in the context of multi-case-study research. Our research also zooms in on the individual, which Schweizer and Vahlne (2022) argue in their conceptual paper, may explain for non-linear internationalization and disruptive outcomes. In line with this, our empirical research adds more realism to the internationalization process model by detailing how personal *guanxi* of the decision-maker may lead to investment in markets with high psychic distance and dissecting the cause-and-effect of *shuren-* and *shengren* *guanxi* on commitment. In addition, we bridge the literature on Emerging Economy firms' internationalization and the Uppsala internationalization process model by contextualizing the important aspect of market selection, commitment, and capability-building from the perspective of the Chinese firm.

Also, it contributes to the revised network-based Uppsala internationalization process model (Johanson & Vahlne, 2009) by applying and extending it in the context of CMNEs venturing to Europe. Our research confirms the causal chain from relationship commitment over host-country relationship knowledge development and network knowledge development to business development (Johanson & Vahlne, 2006). Importantly, our results extend the theory by detailing the cause and effect of the process of successful internationalization to developed markets. In addition, we bridge the literature on Emerging Economy firms' internationalization and the network-based Uppsala internationalization

process model by contextualizing the important aspect of development of international social network ties from the perspective of the Chinese firm.

Next, we contribute to the theoretical concept of liability of outsidership by applying it in the context of emerging market firms expanding to developed countries. Liability of outsidership is characterized by a distinct network perspective (Johanson & Vahlne, 2009). Our investigation extends the theory by proposing a process model, detailing antecedents, cause and effects, for EMNEs to overcome those barriers and to eventually become an insider in the business network of the developed economy. Our model describes the process from the perspective of the EMNE taking into account contextualized constructs like home country institutional network ties and host country economic environment.

Additionally, this thesis expands the stream of research on *guanxi* in particular and social network ties in general. It is one of the first papers to investigate the role of *guanxi* of Chinese firms' internationalizing to developed economies. Our research takes into account the particular characteristics of *guanxi* and uses the extant research on trust (Lee & Dawes, 2005) to dissect *guanxi* into different elements in order to apply it in the different cultural context of Europe. Hence, our research offers a first step to take a dynamic view on a concept, which results from Chinese culture but is taken into modern business environment. Our findings provide insights into which elements of *guanxi* are transferable to the business networks of developed markets and give propositions about their impact and importance. We discuss, how certain functional strategies support the establishment of *guanxi*-like relationships. Lastly, our second model gives a fine-grained understanding of the differences between the *guanxi*-building process in developed markets in contrast to the familiar process in China (Fu et al., 2006).

Our empirical research also adds more of the needed realism (Vahlne & Johanson, 2020; Vahlne & Schweizer, 2022) to the extended internationalization process model of 2021 by detailing (i) how *guanxi* is used in contrast to formal coordination mechanisms, (ii) its importance as backdoor mechanism at smaller Chinese companies, (iii) how strong *guanxi* ties are a prerequisite for certain information to be even transmitted between subsidiary and headquarter, (iv) how *guanxi* establishes trust between the Chinese leader in the headquarter and the leader of the overseas subsidiary and thereby influences the decision about leadership selection, and (v) how *guanxi* is applied as mechanism for informal coordination and governance between Chinese headquarter and overseas subsidiary.

In addition, we bridge the literature on Emerging Economy firms' internationalization and the Uppsala internationalization process model by contextualizing the important aspects of informal and formal mechanisms of coordination and control between networked companies from the perspective of the Chinese firm and thereby support the notion of Ramamurti and Hillemann (2018) that Chinese MNE internationalization has its own distinct features.

Finally, in terms of methodology we used a qualitative approach, which Vahlne and Johanson (2017), argue is preferred over quantitative research methods for the internationalization process model. Through our case studies we added more nuances and detail to the IPM in the context of Chinese firms and *guanxi* than possible with a quantitative approach.

### **5.3. Practical applications**

In practical terms, the findings of this thesis have significant implications for Chinese, Western, and other emerging market firms alike. In the following pages we would like to distill the key managerial findings from our research.

The propositions we have derived in this research describe and explain how *guanxi* influences strategic decisions of Chinese firms when they venture to advanced markets. Emerging market firms can understand from this research their own bias when going international. We saw a strong influence of the *guanxi* of individual decision-makers in determining investments of multiple millions. This may not be the best approach for expanding to advanced markets, which typically enjoy a transparent legal system and stable business environment. To include more objective data and analysis in the decision-making process of internationalization, the emerging market firms could, for example, implement a stage-gate process that ensure objective data is used along each gate in addition to home country-specific elements of doing business such as *guanxi*.

Our research results also provide important insights for advanced country firms. Established Western firms need a clear picture of how *guanxi* influences the strategies of Chinese newcomer firms to be able to react accordingly to the new challenges. As we showed in our data, *guanxi* may also lead to mimicking behavior in the competitive strategies of Chinese firms. Western competitors may see themselves pushed out of the market as they suddenly face many new competitors appear to be singing from the same hymn book. This entry of new players to the advanced market will result in greater competition but also larger benefits for the customer. Western companies need to understand their strengths relative to the newcomers and develop strategies to defend their castle.

Our research explains how some front-runners from China successfully established an insider position in a developed country business network and thereby overcoming the liability of outsidership that emerging market firms are facing. Our model suggests that Chinese firms may overcome the liabilities of outsidership through a process of establishing *guanxi*-like relationships within the business network of the developed country. Those ties serve the primary function of relationship marketing. However, this process requires two things: (1) the company needs to go through an experimental learning process on relationship building in the developed country itself and (2) focus on building cognitive and affect-based trust as well as positive commitment. As a result, an emerging market firm expanding to a developed country should deliberately consider those requirements with respect to their HR recruiting and Marketing & Communications strategy. Finding talent that can do not require the experimental learning process can significantly improve the speed of international expansion. Sizeable investments are also necessary for establishing a service network on par with the incumbent competition. Our research shows that a strategy of service leadership, which focuses on exceeding the expectations of the customers on service, clearly supports the process of overcoming liability of outsidership.

Next, our findings detail the relationship building process and contrast the approach in Western countries to the familiar Chinese *guanxi*-building process. To initiate business in developed markets the Chinese company should first focus on building cognitive trust through quality, pricing and service that consistently exceeds the expectations of the Western customer. The departments for Research & Development, Product Management, Sales & Service of the emerging market firm need to work closely together to develop

products and services that meet the market requirements of the host country and define specific area in which the expectations of the customer should be exceeded. In some cases, this can only be the price, however, it needs to be ensured that quality and after-sales service are on par with the competition. At a later stage, the focus should shift to building affective trust and positive commitment. This may be achieved by stressing the long-term benefits of the partnership and focusing on expanding the business relationships with key decision makers to a personal level. In our cases, some emerging market firms used for example invitations to their home country HQ to support the relationship-building process. Having established cognitive trust, as well as affective trust and positive commitment, the Chinese firm can become an insider in the developed country's business network.

Particularly, EMNEs striving to achieve competitive advantages in the global markets need to understand the dynamics and differences in relationship-building when they are expanding overseas. The ability to build and manage managerial network ties in different parts of the world is critical for the success of any international company. They must learn how to adapt their market expansion and *guanxi* strategy according to the changing requirements of the developed markets. Also, an integrated expansion plan is required with detailed functional strategies for Sales and Service, Marketing, Research & Development, as well as People & Capability.

The propositions we have derived in this research describe and explain how *guanxi* affects how Chinese companies manage, govern and coordinate with their subsidiaries in advanced markets. Emerging market firms can understand from this research their own bias when managing their own international subsidiaries. We saw a strong influence of the *guanxi* of Chinese leader in determining leadership appointments at the foreign subsidiary. This may

not be the best approach for managing the business in advanced markets, as it may not put the best qualified person in the leadership position. Also, using *guanxi* as a backdoor mechanism to accelerate and facilitate decision-making in the headquarter may increase the speed and agility of Chinese firms abroad, but may also lead to wrong decisions with costly consequences due to information bias. A more formalized and objective decision-making process may yield better results long-term. The strong importance of *guanxi* for strategic coordination and global governance excludes non-Chinese managers from participation and may thereby limit the success Chinese firms may eventually have in highly competitive advanced markets. On the other hand, the comprehensive language and cultural training program that one of companies in our sample set-up for their acquired European subsidiary can be considered as best-practice. The learning should work bi-directionally, meaning that the leaders of the advanced market firm within the network should also be open to learn from the emerging market firm.

Finally, our research results also provide important insights for advanced market firms. Established Western firms need a clear picture of how *guanxi* influences the governance and coordination of overseas subsidiaries of Chinese newcomer firms to be able to react accordingly to the new competition. The strong reliance on *guanxi* for the appointment of overseas leadership and the closed circle nature of the global *guanxi* network of Chinese leaders, gives incumbent Western firms hope that their best talent is not likely to be poached away by Chinese competitor or if it is the case, at least not easily integrated in their global governance and management structure.

#### **5.4. Limitations and future research**

While this thesis has provided extensive insights, it acknowledges certain limitations, which are described below. These limitations, however, open avenues for future research.

Firstly, in this research we used the internationalization process model as the mainstream theoretical grounding for our *guanxi* research. Further studies could apply the same idea to other classical theories such as the eclectic paradigm to test how the concept of *guanxi* can be applied and help extend the existing theories.

Secondly, this research was conducted with Chinese firms and their decision-makers in focus. A similar study could be conducted with individuals from other emerging markets at the focal point of analysis. This could be combined with shifting the focus to emerging markets instead of advanced markets. It would be worthwhile to explore if similar results can be found in those settings.

Thirdly, our research looked specifically at the European market. Some of the participants with work experience in other emerging markets described situations that were quite different from the one in developed markets. Here, we suggest investigating the question if Chinese firms have a competitive advantage in emerging markets compared to Western firms, as they are apparently more proficient in building and managing *guanxi*-like relationships.

Finally, in terms of methodology, a quantitative or mixed-method approach would be useful to test the propositions derived in this paper. Also, a longitudinal study could discover the intricacies of a long-term evolution of *guanxi* in an international setting.

## **5.5. Final thoughts**

As I reach the culmination of this scholarly endeavor, started in late 2016, it's imperative to contextualize the evolution of my research against the backdrop of global economic and geopolitical shifts. When I began my part-time PhD journey, the narrative of continuous globalization and the inevitable internationalization of Chinese firms into developed markets was predominant. The business landscape was ripe with opportunities for cross-border expansions, and the integration of Chinese enterprises into global markets seemed like an unalterable course.

However, the landscape in late 2023 presents a stark contrast to the one I entered as an early PhD student. The trajectory of globalization appears to be inverting. The decoupling between the United States and China, fueled by intensifying geopolitical tensions, has profound implications for the international business community. This decoupling is not merely a political standoff; it represents a significant shift in the global economic order, directly impacting the strategies and operations of EMNEs, especially those from China.

Throughout this thesis, I have strived to dissect and understand the complexities and nuances of this shifting paradigm, particularly focusing on *guanxi* and the internationalization strategies of Chinese firms in developed markets. The reversal from a globally integrated economy to one marked by fragmentation and regionalization challenges the foundational theories of international business that were relevant at the outset of this research.

This PhD journey has been as much a lesson in the fluidity and unpredictability of the international business environment as it has been an academic exercise. It has underscored

the necessity for businesses, especially those engaged on in global markets, to remain agile and responsive to global economic and political currents. The dynamic between the West and China, central to my research, highlights the need for a reevaluation of international business theories in an increasingly polarized world.

As I conclude, it's evident that the themes explored in this thesis are more pertinent than ever. The ongoing shifts pose strong headwinds for CMNEs operating in Western markets. At the same time, Western MNEs are more and more challenged in the Chinese market as well. A deep understanding of intricate “personality” of CMNEs may help with navigating these challenges.

In closing, my journey through this PhD has mirrored the dramatic transformation of the global business landscape - a landscape that continues to evolve, presenting new challenges but also opportunities for the discipline of international business research. This thesis is a testament to the resilience and adaptability required in the face of such changes, both for businesses and for researchers alike.

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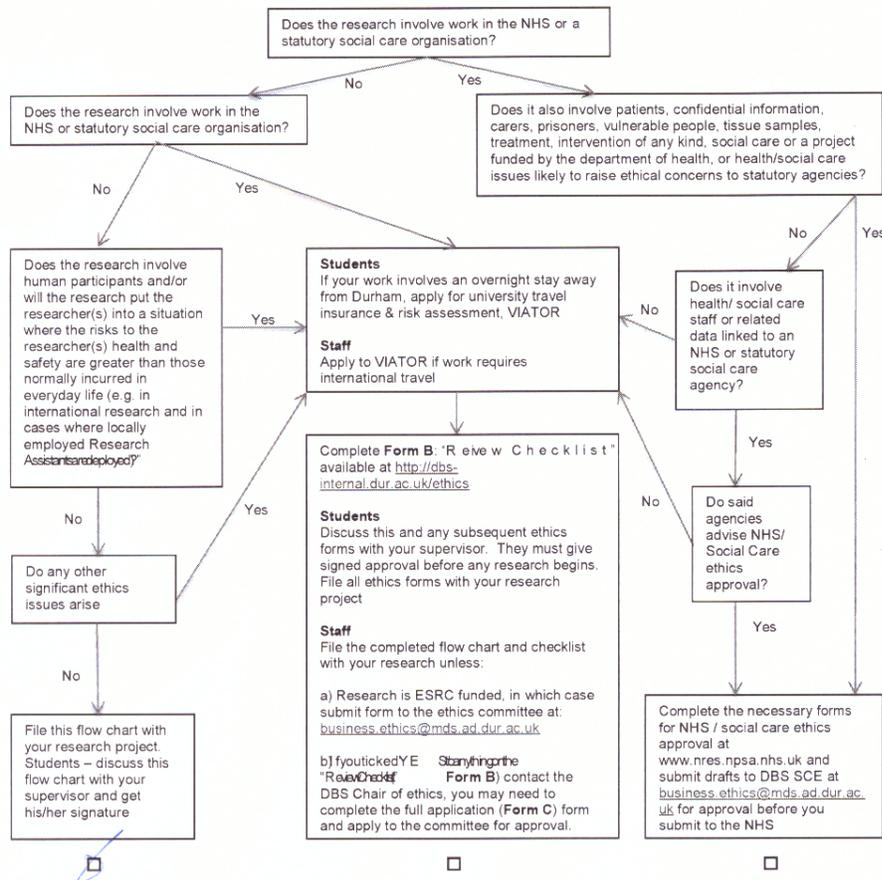
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7. Appendix

**ETHICS FORM 'A' – Process flow chart for students & staff**

Title of Project: *The impact of the Chinese way of doing business on internationalization strategies: Exploring the internationalization process model and the role of guanxi for Chinese firms*

Name of Principal Researcher or Student: *Jonathan Chen*



Tick one box only

Signature of Principal Researcher or Supervisor:

Signed:  Date: *5/23/2018*

## **Exemplary E-mail to Interview Participants:**

Re: Internationalization of Chinese Firms to Europe – Research Project

Dear Mr. xxx,

Chinese companies are increasingly leaving their home market to establish themselves as global players on the world market. They are developing into companies that not only buy and sell worldwide, but also invest and acquire. However, they encounter problems that were previously unknown to them and that arise solely from doing business abroad. But successfully operating MNEs show that solutions already exist.

As a researcher at the Durham University Business School, one of the leading business schools in Europe, I have started a research project that aims to answer the questions arising from the internationalization of Chinese companies to Europe and the challenges that come with it. A particular focus of this research is placed on “Guanxi”.

In addition to contributing to science, my project aims to derive recommendations for management to successfully overcome this challenge.

To achieve this goal, I need your support.

I’m conducting case study interviews with Chinese companies operating in Europe to understand how Chinese companies operate abroad. That's why working with you is very important to me. Please be assured that confidentiality will be strictly adhered to when dealing with non-public company information. You may also choose to have your information anonymized if required. In addition, as a participant in this research project, you will have access to the project's findings on best practice strategies before publication.

Together with this cover letter you will find the necessary information on how to proceed efficiently to limit the time and effort needed for your cooperation.

I look forward to your contribution and thank you for your cooperation.

Best regards,

Jonathan Chen

## **Interview Guideline**

### **1. Own introduction**

Research project on the internationalization of Chinese companies to Europe

### **2. Introduction of the interview partner and the company**

#### **Person:**

Name, position, how long you have been with the company?

#### **Company:**

When was your company founded?

How long has your company been in Europe?

How many employees do you have in China?

How many employees do you have in Europe?

In which other countries do you still have branches?

What are your goals that you are pursuing through your internationalization to Europe?

### **3. Research theme 1: Before internationalization**

#### **Introductory question:**

What factors led to your internationalization to Europe?

#### **Research questions to be answered:**

- In what way did your company's existing “guanxi” relationships influence the decision to internationalize your company?

- What role did your company's existing “Guanxi” relationships influence the choice and decision for the new international location?
- What role did your company's existing “Guanxi” relationships influence the choice and decision for the form of market entry?
- What other factors influenced your decision about market selection and market entry mode?

#### **4. Research theme 2: Business development in Europe**

##### **Introductory question:**

What difficulties are you encountering in the European market that you did not previously expect?

What strategy do you use to assert yourself in the mature European market?

##### **Research questions to be answered:**

- How can “Guanxi” relationships with customers, suppliers, competitors, and other business partners help to address these difficulties in Europe?
- How can “Guanxi” relationships with customers, suppliers, competitors, and other business partners help to establish your business in Europe and generate growth?
- How can “guanxi” relationships with government authorities, industry authorities and other governmental or semi-governmental institutions help to address these difficulties in Europe?
- How can “Guanxi” relationships with government authorities, industry authorities and other government or semi-government institutions help establish your business in Europe and generate growth?

- How do you use your and the “Guanxi” relationships to make and improve your reputation and your brand in Europe?
- What is other relevant information in this context?

### **5. Research theme 3: Coordination and management between HQ and Subsidiary**

#### **Introductory question:**

How do you coordinate and manage your business activities in China and Europe?

#### **Research questions to be answered:**

- How can “Guanxi” relationships within your company strengthen coordination, information exchange and trust between Chinese headquarters and European subsidiary?
- What role does “Guanxi” play in strengthening relationships within your company for knowledge management between the Chinese headquarters and the European subsidiary?

### **6. Other**

In your opinion, are there any other important points about your internationalization that have not yet been addressed? If yes, which?

### **7. Conclusion and Thanks!**