Chinese Entrepreneurs, Social Networks, and Guanxi

These slides report work in papers with Katarzyna Burzynska and Sonja Opper. Manuscripts are available at http://faculty.chicagobooth.edu/ronald.burt.
Chinese Entrepreneurs, Social Networks, and Guanxi
Summary Points for Quick Talk

Intending to clear space for rigorous integrative research bridging theory and research across East and West, we highlight three conclusions from exceptional data on the networks around Chinese entrepreneurs:

(1) Event contacts are usually ignored but are easy to elicit and substantively important.

(2) The trust correlates of closed networks in the West are similarly correlates in China, but event contacts in particular are the object of “guanxi” ties, encouraging the idea that guanxi ties in China correspond to a category of especially strong tie in the West.

(3) History and trust proven in events emerge as especially important to the Chinese entrepreneurs. The transition from founding to first significant event stands out as distinctly consequential for later success. Entrepreneurs who turn for help on their first significant event to a person separate from, but especially close to, the founding contact are more successful in their business development. That early “positive move” is not visible in the later network around the entrepreneur.
Figure A2. Business Event Name Generator

The next five questions generate a summary picture of the business network. To draw the picture, you will be asked about people, but we do not want to know any one's name. I will go through this network worksheet with you, asking about people who were useful to your business in one way or another. Without mentioning anyone's name to me, please write on your worksheet the names of people who come to mind in response to the questions. We will create a list of names then refer to people by their order on the list. No names. You will keep the worksheet to yourself.

Q1. Let me begin with an example so you can see how the interview protects your confidentiality at the same time that a picture of the business network emerges. Your business time line shows that your firm was founded in __ (say founding year)__. Please think back to your activities in founding the firm. Who was the one person who was most valuable to you in founding the firm?

Q2. Now please do the same thing for each of the significant events you listed on your business time line. The first significant event you listed was __ (say first event)__ in __ (say year)___. Who was the person most valuable to you during that event? Please write on the first line below the person's name. The person most valuable in this event could be the same person who was most valuable to you in founding the firm. You would just enter the name again.
Event Timeline
(years since founding above, percent business life below)

1. Person known for 27 years, cited as most valuable in founding the business.

2. Person known for 19 years, cited as most valued in the first event.

3. Person known for 17 years, cited as most valued in the second event.

4. Person known for 13 years, cited as most valued in the third event.

5. Person known for 15 years, cited as most valued in the fourth event, and as a most valued current contact.

6. Person known for 7 years, cited as most valued in the fifth event, and as a most valued current contact, and as most valued employee.

7. Person known for 7 years, cited as a most valued current contact.

8. Person known for 4 years, cited as a most valued current contact.

9. Person most difficult to deal with this year, known 4 years (machine breakdown caused heavy losses)

Figure 1.
Example Network Observation

Line thickness indicates closeness.
High-trust relation indicated by “trust.”
No line is “distant” relationship.
Respondent is the square.

Respondent founder of 13-year business, now 467 employees.

Network Metric, Z-Score: Size (9, 1.77), Density (.342, -.72), Effective Size (5.86, 1.53), Constraint (.371, -1.38)
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**Alpha** — average trust in a nonevent bridge relationship

**Gamma** — increase to alpha if bridge is guanxi

**Beta** — average increase in trust associated with the log of mutual contacts embedding a nonevent relationship

**Lambda** — adjustment to beta when relationship is guanxi

**NOTE** — Dots are average scores on vertical axis at each level of horizontal. Vertical axis is mean respondent trust in a contact, measured on a five-point scale (T). Horizontal axis is closure measured by number of mutual contacts in respondent network (count of third parties, TP). G is a dummy variable equal to 1 for a guanxi tie, here operationalized by a citation as the most valued contact in a significant event. Parameters are estimated by OLS for 2,905 relations with event contacts, and 1,559 relations with nonevent contacts.

\[ T = (\alpha + \gamma G) + (\beta + \lambda G) \ln(TP) \]
Trust Is Higher in Relations Embedded in Closed Networks

Graph A describes 46,231 observed colleague relations with analysts and bankers over a four-year period (adapted from Burt, 2010:174-175). Vertical axis is the proportion of relations cited next year as good or outstanding. Horizontal axis is number of mutual contacts this year.

Graph B describes 4,464 relationships cited by the 700 Chinese entrepreneurs. Vertical axis is mean respondent trust in the contact, measured on a five-point scale. Horizontal axis is the number of other people in a respondent's network connected with the contact being evaluated for trust. Test statistics are estimated controlling for network size and adjusted for autocorrelation between relations described by the same respondent (Stata "cluster" option). Adapted from Figure 4, Burt and Burzynska (2017, MOR).

NOTE — Dots are average Y scores at each level of X. Graph A describes 46,231 observed colleague relations with analysts and bankers over a four-year period (adapted from Burt, 2010:174-175). Vertical axis is the proportion of relations cited next year as good or outstanding. Horizontal axis is number of mutual contacts this year. Graph B describes 4,464 relationships cited by the 700 Chinese entrepreneurs. Vertical axis is mean respondent trust in the contact, measured on a five-point scale. Horizontal axis is the number of other people in a respondent's network connected with the contact being evaluated for trust. Test statistics are estimated controlling for network size and adjusted for autocorrelation between relations described by the same respondent (Stata "cluster" option). Adapted from Figure 4, Burt and Burzynska (2017, MOR).
Same Network Mechanisms in Different Composition, Make for Different Business Environments

Among the Western Analysts and Bankers, 1,233 Ties Are Guanxi of 13,780 at Risk of Being Guanxi

Among the Chinese Entrepreneurs, 2,905 Ties Are Guanxi of 4,464 at Risk of Being Guanxi
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Figure 3. Business Success Is Higher in Large, Open Networks

NOTE — Dots are average scores for a five-point interval of network constraint in a study population. Lines are vertical axis predicted by network constraint (OLS, ln[100 C]). Graph A shows success (measured by evaluation, compensation, or promotion) increasing with more structural holes in the networks around 1,989 analysts, bankers, and managers in American and European companies, with controls for differences between the individuals (from Burt, Kilduff, and Tasselli, 2013:535; Burt, 2010:26; cf. Burt 2005:56). Graph B shows business success increasing with more structural holes in networks around each of the 700 Chinese entrepreneurs. Business success is measured by a z-score defined by the first principal component of patents, employees, and sales adjusted for having a research and development department (z-score = [business success in Table 1 - .817 RD + .411]/.909).
Business Success Is Associated with Large, Open Network, But Not if Limited to Current Contacts

NOTE — Dots are average success scores within five-point intervals of network constraint. Business success is measured by the first principal component of patents, employees, and sales adjusted for having a research and development department. Solid dots are averages for network scores computed from current contacts plus all event contacts. Hollow dots are averages for network scores computed from only current contacts. Lines are success predicted by the natural logarithm of network constraint. Test statistics are from Tables 6 and 7. The network association with success clearly depends on including event contacts.
Figure 3.
People Cited for Founding and First Significant Event Stand Apart from Other Contacts

- Years Known
- Order in Which Event Is Cited
- Year in Which Event Occurs
- Portion of Business History in Which Event Occurs

- Years Known
- % High Trust
- % Especially Close
- % Family

- Percent
### Table 10.
**Business Success by Network Transition to Event 1**

<table>
<thead>
<tr>
<th>Event 1 Contact Is:</th>
<th>Event 1 Contact is Family</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>Yes</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>Same as Founding Contact</td>
<td>-.039</td>
<td>-.057</td>
<td>-.044</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(252)</td>
<td>(87)</td>
<td>(339)</td>
<td></td>
</tr>
<tr>
<td>Especially Close with Founding Contact</td>
<td>.093</td>
<td>.217</td>
<td>.112</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(194)</td>
<td>(36)</td>
<td>(230)</td>
<td></td>
</tr>
<tr>
<td>Not Especially Close with Founding Contact</td>
<td>-.106</td>
<td>.193</td>
<td>-.084</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(121)</td>
<td>(10)</td>
<td>(131)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>-.008</td>
<td>.036</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(567)</td>
<td>(133)</td>
<td>(700)</td>
<td></td>
</tr>
</tbody>
</table>

**NOTE** — Mean z-score business success with number of observations in parentheses. Shaded cells are the ones discussed in text as “positive moves” on event 1.
B. Greatest success if event sequence began with positive move

A. Increasing average success with multiple event contacts

C. Early positive move invisible in later network

Figure 11. Large, Open Network Is Good, but Initial Positive Move Makes It Better
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