



# Guanxi and risk-taking propensity in Chinese immigrants' businesses

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## Abstract

This paper studies the determinants of the risk-taking propensity in immigrant-owned businesses. The paper has a particular focus on first-generation Chinese immigrants and the effect of the so-called “guanxi”, a specific form of social capital for Chinese communities. The empirical research is based on a survey conducted in 2012 on Chinese immigrant entrepreneurs in Andalusia (Spain). An ordinal logistic regression specification was employed to test the hypotheses. The results show that the Chinese immigrant entrepreneurs with better “guanxi” run businesses with a higher risk-taking propensity. Furthermore, those Chinese immigrant entrepreneurs who have other business owners in their families and undertake business planning and control activities are more prompted to take risks in the management of their companies. The risk-taking propensity of immigrant-owned businesses increases over time starting from the immigrant entrepreneurs' arrival to Spain. In contrast, the education levels of Chinese entrepreneurs' bear no significant effect on the risk-taking propensity of their businesses.

**Keywords** Risk-taking · Social capital · Entrepreneur · Chinese immigrant · Guanxi

## Introduction

The increase in business activities undertaken by immigrants is a subject of growing interest for policy makers and theorists (Clark and Drinkwater 2010; Hormiga and

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Bolívar-Cruz 2014; Rath and Swagerman 2016; Dheer 2018). Studies in this field reveal that immigrants are people with strong motivation towards entrepreneurship (Collins 2002; Levie 2007; Soydas and Aleti 2015), but have to face, to varying degrees, obstacles and situations of uncertainty associated with unfamiliarity with the culture and society of the host countries (Ram and Jones 1998; Ndoen et al. 2002).

Immigrants tend to develop strong ties with other migrants in their own ethnic community within the host region and they may use this ethnic social capital to overcome some of the previously mentioned limitations (Con et al. 1982; Salaff et al. 2006; Katila and Wahlbeck 2012). Social capital is widely recognised as a valuable asset in the process of business creation, survival, and growth (Johannisson 1995; Macke and Dilly 2010; Romero and Yu 2015). However, the mechanisms through which social capital can support immigrant entrepreneurship have not been sufficiently investigated in the previous literature. This paper aims to contribute towards a better understanding of immigrant entrepreneurship. In this respect, the main hypothesis of this paper is that ethnic social capital increases the propensity of undertaking risky projects in immigrant businesses.

In particular, Chinese immigrant entrepreneurs benefit from a specific type of social capital, known as “guanxi”, which has very strong historical roots in Chinese culture (Park and Luo 2001; Lin 2011). “Guanxi” represents a socio-cultural institution consisting of personal ties, delimited by implicit moral contracts, which establish the basis for long-term relationships of mutual commitment and loyalty (Romero and Yu 2015). Previous literature has explored the influence of “guanxi” on entrepreneurial activity and firm organisation and performance (Xin and Pearce 1996; Troilo and Zhang 2012; Chen et al. 2013). This paper studies one of the mechanisms through which this influence may be exerted. The analysis carried out shows that “guanxi” crucially influences the organizational risk-taking in the small businesses of first-generation Chinese immigrants, and hence assumes a critical role in the development of these companies.

Ferris et al. (2017) have observed that CEO social capital exerts a positive influence on risk-taking behaviour on companies around the world, and several studies have pointed out that “guanxi” plays a major role in reducing uncertainty and risk in China in the context of a changeable institutional environment (Park and Luo 2001; Puffer et al. 2010). However, to the best of our knowledge, no empirical research has previously examined the influence of “guanxi” on the risk-taking propensity of Chinese immigrant entrepreneurs.

In addition, the paper also studies the effect of the time the immigrant entrepreneur has lived in the host country, the existence of other business owners in the family of the immigrant entrepreneur, and the development of proactive management as factors that can influence the risk-taking propensity of the immigrant’s business.

The paper is organised as follows. The second section reviews the literature. The third section postulates the research hypotheses. The fourth section presents the data and describes the research methodology. The fifth section shows the results and the paper ends by presenting some final conclusions.

## Literature review

### Migrant entrepreneurship and risk-taking

A company's organizational risk-taking reflects, among other factors, the risk assumed by its business owners and managers to deal with uncertainty associated with investments and strategic decisions in general (Covin and Slevin 1991). Previous research suggested that entrepreneurial success and business performance depend on the entrepreneur's risk-taking propensity (Stewart et al. 1999), and on the capacity to adapt to and tolerate ambiguity (Bhide 2000). This can be especially relevant in small firms, in which business owners often assume a core role in the strategic decisions and the management of the company (Stewart et al. 1999; Guzmán and Santos 2001; Romero and Martínez-Román 2012), thereby directly influencing its entrepreneurial orientation (Lumpkin and Dess 1996). Therefore, in spite of individual and organizational risk-taking being two separate concepts, they do remain narrowly related, particularly in the context of small businesses owned by immigrants, which forms the focus of this paper.

Many studies show the positive relationship between risk tolerance and self-employment (Ekelund et al. 2005; Van Praag and Cramer 2001) along with the entrepreneurs' high capacity for risk-taking (Sexton and Bowman 1985; Anh 2010). However, this view is not unanimous (Brockhaus 1980; Macko and Tyzcka 2009). According to a number of studies, entrepreneurs are less willing to take more risk than non-entrepreneurs (Busenitz and Barney 1997; Gartner and Liao 2012). Indeed, certain authors claim that entrepreneurs do not actually perceive themselves to be doing anything risky at all (Palich and Bagby 1995; Simon et al. 2000).

This lack of consensus concerning entrepreneurs' risk-taking propensity may be partly explained by two reasons. On the one hand, entrepreneurs may be able to venture into a new business because they have a different perception of risk (Palich and Bagby 1995; Simon et al. 2000). On the other hand, many entrepreneurs seem to take risks only after carefully analysing the situation and evaluating the probability of outcomes. Thus, Macko and Tyzcka (2009) consider entrepreneurs are actually more risk-prone than other people, but only in skill-related risky situations and not in purely chance-related risky situations. The difference between these two kinds of risk is the extent to which the entrepreneur has control over the outcome. Thus, it is believed that entrepreneurs accept moderate risks in situations where they have a certain degree of control or skill in realising a profit (Sarasvathy et al. 1998).

Risk as perceived by entrepreneurs depends on their self-confidence regarding their entrepreneurial knowledge, skill and abilities (Krueger and Dickson 1994) and on the perception of control on the outcomes of their entrepreneurial behaviour (Sitkin and Weingart 1995; Markman et al. 2005). Therefore, some knowledge of the entrepreneurial context can influence future entrepreneurs' confidence and reduce their perception of uncertainty (Caliendo et al. 2014; Hormiga and Bolívar-Cruz 2014). Furthermore, García-Pérez et al. (2014) note that in the context of SMEs, where the entrepreneur's perceptions are more decisive, the level of risk in the strategic choices depends on how entrepreneurs perceive the situation with regard to the capabilities of the firms.

Though immigrant entrepreneurship is a topic that has generated a broad interest in the entrepreneurship research domain (Dheer 2018), there are still few studies on the

risk-taking propensity in this specific type of entrepreneurs and businesses. Those studies suggest, according to the literature about entrepreneurship, that a positive personal attitude towards risk-taking positively affects the immigrants' entrepreneurial activity (Peterson and Meckler 2001). The migration experience may make an immigrant more tolerant to taking risks (Hormiga and Bolívar-Cruz 2014). Spatial agglomeration of entrepreneurs decreases the perception of risk associated with entrepreneurship and increases the self-employment rate of immigrants (Guerra and Patuelli 2014; Contín-Pilart and Larraza-Kintana 2015). Furthermore, access to cheaper resources and risk-taking propensity in markets characterized by low economies of scale and entry barriers, enable the migrant entrepreneurs to take advantage of business opportunities (Aldrich and Waldinger 1990).

### **Entrepreneurship and social capital**

The entrepreneurial process represents a particular economic behaviour that is embedded in the social structure and is constrained and shaped by the characteristics of the social institutions (Granovetter 1973, 1985). In this respect, social capital (Coleman 1988; Putnam 1993) has been considered a resource that supports entrepreneurial activity by means of facilitating the acquisition of knowledge, information, funding, labour, and other resources for individuals and organisations (Davidsson and Honig 2003; Gedajlovic et al. 2013). This positive role of social capital in entrepreneurship has particularly been observed in the case of immigrants (Sanders and Nee 1996; Salaff et al. 2006; Romero and Yu 2015).

Through social capital, entrepreneurs can obtain useful information and knowledge which improves the managerial decision process, while intangible assets, such as advice, trust, encouragement and acknowledgement, provide them with emotional support for entrepreneurship (Shane and Venkataraman 2000).

Difficulty in attaining suitable financing is one of the most significant obstacles for entrepreneurs and business owners. Nevertheless, network ties and mutual trust can facilitate the access to formal (Batjargal and Liu 2004) and informal finance (funding from family, friends and other members of the ethnic community, even from suppliers), a resource widely used by immigrants (Sanders and Nee 1996).

Social relationships are also helpful in the process of recruitment and selection of workers, and can increase their work commitment through personal relationships and mutual trust, thereby reducing the risk of opportunism (Sanders and Nee 1996). In addition, social capital can facilitate the detection and exploitation of business opportunities (DeCarolis et al. 2009; Smans et al. 2013) and reduce the transaction costs both in the market and within organisations (Landry et al. 2002).

This broad set of resources may also increase entrepreneurs' self-efficiency and perception of control on the results of their entrepreneurial behaviour, and can therefore reduce uncertainty and the risk perceived in the entrepreneurial activity (Liñán and Santos 2007; Lipparini and Sobrero 1994; Chen and He 2011). Self-efficiency and perception of control, which are positively correlated, are developed from external experiences (Bandura 1997). Social capital strongly influences the extent to which the set of resources embedded within said capital is shared between the members of the network/community, and it improves the ability to combine information to create new knowledge (Nahapiet and Ghoshal 1998). Subjects with greater social capital receive

more feedback about themselves and their entrepreneurial competences, which then enhances their self-efficacy (Han et al. 2015). Resources shared in social networks provide security for the entrepreneurs and could increase their perception of control (DeCarolis et al. 2009).

Moreover, social capital allows risks to be shared and reduced from an individual perspective. Members of a social network might expect to receive support from other members when experiencing problems or failing in their business ventures. Therefore, social capital might stimulate members of a social network to start up a business, engage in innovations and assume higher risk levels in their entrepreneurial ventures (Janney and Dess 2006).

### **“Guanxi” as a form of ethnic social capital**

In recent years, the Chinese term “guanxi” has gained relevance in the social science literature (Hwang 1987; Xin and Pearce 1996; Chen et al. 2013). It refers to a system of connections to secure favours in personal and organisational relations which are ruled by specific socio-cultural norms. “Guanxi” is deeply embedded in China’s Confucianism culture and has ancient historical roots (Park and Luo 2001; Lin 2011). In Chinese society, “guanxi” has a great influence on business activity, ethics and organisation (Xin and Pearce 1996; Li, 2001; Troilo and Zhang 2012).

Following Chen and Chen (2004), “guanxi” can be defined as a casual and unique personal connection between two individuals that is delimited by an implicit psychological contract. This contract implies complying with social norms and maintaining a long-term relationship based on a mutual commitment of loyalty associated with certain obligations. A good quality “guanxi” is also characterised by mutual trust between individuals derived from numerous interactions within a framework of reciprocity.

There are various typologies of “guanxi” with different features (Romero and Yu 2015; Chen et al. 2018). Family, personal, and informal “guanxi” are characterised by a more affective nature, whereas non-family, impersonal, and contractual “guanxi” are relatively more instrumental. Friends, colleagues, and acquaintances fall in between, although close friendship can be family-like. In the workplace and in business relationships, “guanxi” presents a mixture of family and non-family, personal and impersonal characteristics (Chen et al. 2013; Peng et al. 2016).

A combination of different “guanxi” is designated by the Chinese term “guanxiwang”, which refers to a network of “guanxi”. Thus, the “guanxiwang” of an individual is formed by his/her network of social relations including all the direct and indirect “guanxi” (Romero and Yu 2015). “Guanxi” is based in two main elements: “mianzi” and “renqing”. The “mianzi” is an intangible asset that represents the power and personal status determined by the individual’s social position and material wealth (Park and Luo 2001; Lin 2011). Those individuals who have a high level of “mianzi” can attain multiple favours within the “guanxiwang” and can also provide significant help to other members of the network. The “renqing” is another Chinese cultural institution related to “guanxi” (Park and Luo 2001). “Renqing” can be defined as an informal social obligation derived from the use of “guanxi”, and represents a private advantage of a member within the “guanxiwang”. The rules of reciprocity also regulate “renqing” (Tsui and Farh 1997). Those who fail to follow these rules lose their position in the “guanxiwang” and thus lose the benefits that derive from it.

## Risk, ethnic social capital, and migrant entrepreneurship

Various studies suggest that immigrants tend to be a collective with a high entrepreneurial spirit (Levie 2007; Collins 2002). This is unsurprising since these two processes, immigration and entrepreneurship, have the assumption of risk in common.

Migration, irrespective of the individual's origin or ethnicity, often constitutes a high-risk situation characterised by uncertain income (Katz and Stark 1987), an uprooting experience, and significant social stress (Noh and Avison 1996). Migrants move towards an unfamiliar place, a new social, economic, and political context. They must face numerous decisions with imperfect knowledge about the host country. Indeed, migrants tend to be favourably “self-selected” towards risk-taking. Their decision to venture into a migration process provides an indicator that they are more likely than non-migrants to be risk tolerant (Levie 2007) and have a greater capacity for risk-taking (Constant and Zimmermann 2006). Moreover, it has been suggested that exposure to the migration experience might modify risk perceptions and, thus, increase the inclination to become involved in entrepreneurial activity (Clark and Drinkwater 2010).

Immigrants have to overcome particular obstacles when trying to start up and develop a business project due to their insufficient language skills, the difficulty that they experience accessing the formal financial sector and, sometimes, due to their irregular legal or administrative status (Ram and Jones 1998; Ndoen et al. 2002). Social capital is especially relevant for migrant entrepreneurship since immigrants are highly dependent on access to local contacts and support from local people to acquire sufficient knowledge about a new society and business opportunities (Zhou 2004; Salaff et al. 2006). Thus, social networks have a positive impact on self-efficacy and motivation of Chinese immigrants to start businesses (Dai et al. 2011). However, immigrants usually have weak social links with the native population in the host region and sometimes suffer linguistic isolation due to their rudimentary knowledge of the local language. For this reason, “ethnic enclaves” arise and immigrants can suffer a “blocked opportunity” problem (Con et al. 1982; Waldinger 1993; Li 2001). Immigrants often have pre-existing links with other migrants in their destination area and tend to develop strong ties with other migrants in their own ethnic community within the host region. The combination of these two types of social capital (with local natives and within the immigrant ethnic group) shape the “mixed embeddedness” of immigrants. This is a key concept in the analysis of the process of insertion of immigrant entrepreneurs in their destination areas (Kloosterman et al. 1999; Kloosterman and Rath 2001).

In this sense, Ward (1984) proposed an archetypical developmental sequence of ethnic businesses based on the experience of South-Asian self-employment in British cities, which can be broken down into four stages. In the first stage of “replacement minority labour”, immigrants take up jobs that locals reject. In the second stage, the “ethnic niche” phase, the immigrant population has reached a sufficient size to allow the development of ethnic businesses oriented towards serving the demands of the immigrant group. In the third stage, the “middleman minority”, immigrant business owners start to serve the local population as well as their own ethnic enclave, typically with retail shops, restaurants, or laundries. In the final stage, that of the “economic

assimilation”, the expansion and diversification of immigrants’ businesses could allow them to integrate into the mainstream local economy.

These phases are associated with various combinations of social capital within the ethnic group and/or with the rest of the host society. From this perspective, ethnic forms of social capital play a critical role in the initial stages and lose importance in the latter stages. The opposite can be stated regarding the social links with the host society (Zhang and Zhang 2016). Moreover, the ascending trajectory in this business scale implies the necessity to assume new entrepreneurial risks in order to jump to the upper stages of the business development.

## Research hypotheses

Organizations’ risk-taking propensity is influenced by a number of individual, corporate and environmental factors (Covin and Slevin 1991; Zahra 2005). In the particular case of small companies, the relevance of the personal characteristics of the entrepreneurs/business owners might be crucial (Stewart et al. 1999; Guzmán and Santos 2001; Romero and Martínez-Román 2012).

In this respect, the literature on entrepreneurship has explored the features and determinant factors of immigrant entrepreneurs’ behaviour (Dheer 2018). Scholars have studied different aspects, including psychological, sociological, and economic factors, that facilitate or hamper immigrants’ start-up processes or the entrepreneurial development of their businesses. Many of these factors are the same as those discussed in the general entrepreneurship literature. For example, the entrepreneurs’ age or gender, their entrepreneurial motivation, their resources (human capital, social capital and financial capital), and other aspects linked to the entrepreneurs’ prior experience and/or exposure, such as family ownership and related factors (Dheer 2018; Wang 2015; Soydas and Aleti 2015; Li 2001). However, other studies focus on specific factors of immigrant entrepreneurship, such as the length of stay in the host nation, language, discrimination, culture and ethnicity (Dheer 2018; Wang 2015; Cueto and Rodríguez 2015; Li 2001).

Moreover, studies regarding immigrant entrepreneurs have analysed organizational-level factors that affect the performance of their enterprises in terms of growth, profitability, survival, and market reach (Dheer 2018). Those studies suggest that immigrants’ firms may pursue business strategies with an entrepreneurial orientation, characterized by innovativeness, proactiveness, and risk-taking (Chaganti et al. 2008). But what are the factors that particularly condition the organizational risk-taking profile of immigrants’ businesses? This paper investigates the factors that explain the predisposition towards risk-taking of immigrant-owned businesses, by considering personal characteristics of the business owners and organizational characteristics of the firms as determinants. In particular, the analysis focuses on first-generation immigrants who started up their own, generally small, businesses after their migration process. In this context, the personal characteristics of the entrepreneur turn out to be crucial for firm management, since they assume a marked leading role in their companies. In particular, the paper explores four hypotheses.

Firstly, the propensity of the immigrant-owned businesses to become involved in challenging projects depends on the risk perceived by entrepreneurs. Those entrepreneurs’

perceptions are shaped in turn by their self-confidence in their entrepreneurial knowledge, skill and abilities, and their perception of control over the outcomes of their entrepreneurial behaviour. The set of resources provided by social capital may increase entrepreneurs' self-efficiency and perception of control. Those personal characteristics of immigrant entrepreneurs influence their managerial decisions regarding new projects, and favour organizational risk-taking (Zahra 2005; Guzmán and Santos 2001; Poon et al. 2006).

In particular, “Guanxi”, as an ethnic form of social capital, can allow Chinese immigrant entrepreneurs access to business information, potential customers, suppliers, financiers, and other resources (Romero and Yu 2015). “Guanxi” also acts as a security blanket for the entrepreneur: a high level of interpersonal trust in other members of their ethnic community can stimulate Chinese immigrant entrepreneurs into engaging in risky new initiatives in their business activity, since they can count on others and are therefore less afraid of failure. These mechanisms may play a crucial role in the case of first-generation immigrants and in Ward's (1984) initial stages of the development of immigrants' businesses.

This paper consequently argues that a high level of ‘guanxi’, as a form of ethnic social capital, stimulates risk-taking in immigrant entrepreneurs' businesses. Therefore, the core hypothesis in this paper states the following (see also Fig. 1):

H1. Guanxi stimulates risk-taking propensity in the businesses of Chinese immigrants.

Length of time in the host nation enables immigrants to gain resources and learn skills suited to the host nation's sociocultural and economic context, thereby facilitating immigrants' self-employment and entrepreneurship rate (Li 2001; Cueto and Rodríguez 2015; Wang 2015). Consequently, a longer time in the host area can also increase the perception of control and self-efficacy of immigrant business owners and the risk-taking propensity of their companies. Based on the above considerations, the following hypothesis is presented in this paper:

H2. Time living in the host nation stimulates risk-taking in the businesses of Chinese immigrants.

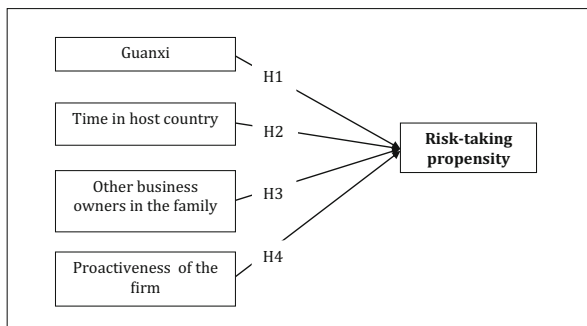


Fig. 1 Risk-taking propensity in Chinese immigrants' businesses: Research hypotheses



Family environment affects the process of entrepreneurship (Lindquist et al. 2015). According to social learning theory (Bandura 1997), entrepreneurial antecedents in family can provide a successful entrepreneur model, and can play a key role in increasing entrepreneurial self-efficacy and motivation towards entrepreneurship. Entrepreneur role models within the family provide opportunities for individuals to learn behaviours, examples and guidance, which may help them to obtain new tasks and skills (Gibson 2004). Furthermore, members in an entrepreneurial family benefit from being mentored by their parents and by accessing the business networks of the family (Kim et al. 2006). Other business owners in the family can be a source of capital, knowledge, resources, and emotional support for entrepreneurship. They may facilitate access to information and experience that can be used for the evaluation of the potential risks and benefits in business (Sanders and Nee 1996). Therefore, exposure to entrepreneurial family role models can increase self-confidence, reduce uncertainty and lessen fear of business failure (Bosma et al. 2012).

This paper consequently argues that having other business owners in the family facilitates access to information and experience that can be used for the evaluation of potential risks and benefits. It can lower the risk associated with the entrepreneurial activity and stimulate risk-taking in the business of Chinese immigrants. Therefore, the third hypothesis in this paper is the following:

H3. The presence of other business owners in the family stimulates risk-taking in the businesses of Chinese immigrants.

Management tasks associated with proactive entrepreneurs, such as formal business planning and control activities for monitoring and forecasting the firm's performance, might mitigate the perception of risk derived from the entrepreneurial activity (Shepherd et al. 2009) and therefore stimulate the growth of firms. The strategies adopted by immigrant-owned enterprises also have been analysed in immigrant entrepreneurship research (Dheer 2018). Chaganti et al. (2008) suggest that entrepreneur immigrants pursue prospector strategies characterized by their orientation towards active opportunity-seeking and innovation.

This paper argues that proactiveness and business planning decrease the risk perceived in the entrepreneurial activity and stimulate risk-taking in the businesses of Chinese immigrants. Therefore, the fourth hypothesis in this paper states:

H4. Firm proactiveness stimulates risk-taking in the businesses of Chinese immigrants.

## Data and methodology

The empirical analysis is based on a survey conducted in August and September of 2012 through 130 personal interviews with Chinese immigrant business owners in Andalusia (Spain). Chinese business owners between 15 and 65 years old who had lived in Spain for at least three months were included in the target population regardless of their administrative status in Spain. According to the Observatory of Migrations in Andalusia, the population of Chinese immigrants affiliated to the Social Security

System as self-employed people in 2011 was 4100 people (OPAM 2012). The Chinese immigrant business owners surveyed for this research were randomly selected from lists of contacts provided by Chinese associations in Andalusia. This sample size guarantees a sample error of 8.5% with a 95% confidence level.

The interviews were carried out by Chinese interviewers in the mother tongue of the business owners. These two factors gave rise to a very high response rate of above 90%. The questionnaire comprised various aspects related to the personal characteristics of the immigrants interviewed, to their social capital resources, and also to their business activity. All the business owners interviewed were first-generation immigrants who had lived in Spain for an average of 7.5 years, and almost all of them had only basic knowledge of Spanish (99.2%). All those interviewed had attained at least primary education and the majority also had secondary studies. Furthermore, most of these entrepreneurs had other business owners in the family (see Table 1).

Among the business owners interviewed, 36.2% managed restaurants and 56.2% retail trade businesses. The remaining 7.6% of the entrepreneurs surveyed had launched cybercafés or Internet points, travel agencies, real estate agencies and warehouses. Regarding the number of employees, all Chinese businesses surveyed were small businesses with fewer than 50 workers. These Chinese businesses were relatively new, with an average of approximately six years of existence. In this respect, the recent history of Chinese immigration to Andalusia, whose origin dates back to the nineties, shows a differential pattern with respect to Ward's model (1984). The pioneers of Chinese immigration in Andalusia soon opened restaurants and retail businesses. Currently, the vast majority of Chinese immigrants' businesses are still engaged in either the "ethnic niche" or and "middleman minority" stages. A high propensity towards self-employment is characteristic of Chinese immigrants in Andalusia. They view self-employment as a way to improve their economic and social status. Chinese immigrants work for some time as paid employees in other Chinese businesses, while they save money and familiarise themselves with the business. However, their goal in most cases is to start up their own businesses.

**Table 1** Descriptive indicators

		Chinese immigrant business owners
Risk-taking (average and s.d.)		4.3 (0.14)
Time in Spain (average number of years and s.d.)		7.5 (0.14)
Educational level	Primary (%)	36.2
	Secondary (%)	63.8
Entrepreneurs in the family	Yes (%)	80.8
	No (%)	19.2
Retail	Yes (%)	56.2
	No (%)	43.8
Firm Age (average number of years and s.d.)		5.9 (1.56)
Planning (average and s.d.)		0.19 (0.39)

*s.d.* standard deviation

In order to test the hypotheses proposed in previous section, an empirical analysis has been carried out considering the following variables:

#### A. Dependent variable: Risk-taking

The dependent variable is an ordinal variable which measures the risk-taking propensity of Chinese immigrants' businesses. Those interviewed were asked about their level of agreement with the following statement: "In general, a tendency to undertake high-risk projects exists in my business". This question was adapted from Covin and Slevin (1989). The answers were coded using a 7-item Likert scale, value 1 indicating the lower level of risk-taking and value 7 indicating high willingness to tackle risky projects.

The average of this variable in the sample was 4.3, which indicates a medium-level predisposition towards high-risk projects. This value is higher than that obtained in a separate survey carried out in 2010, which included the same question but was addressed to native business owners in Andalusia (Martínez-Román and Romero 2013). In that study, the risk-taking variable presented an average value of 3.1. Since this comparison involves not only two different populations, but also different moments (2010 and 2012), the interpretation must be necessarily very prudent. However, this result seems to indicate that Chinese immigrants might be characterised by a higher capacity to take risks compared to native business owners. This could be partially explained by the self-selection associated to immigration and also by changes in the perception of risks that could be caused by the immigration experience, among other factors.

#### B. Explanatory variables

- The first explanatory variable in this analysis is a measurement of the "guanxi" resources of Chinese immigrants, which was obtained from an exploratory factorial analysis of a set of questions included in the survey. Those interviewed were asked about their level of agreement with the descriptions presented in Table 2 (using a Likert scale from 1 to 7, with 1 meaning total disagreement, and 7 absolute agreement). The value of the Kaiser–Meyer–Olkin statistic was 0.829, which is a sufficiently high level. Bartlett's test also showed significant values. The values of the commonalities varied between 0.678 and 0.793. Cronbach's alpha value, as a measure of scale reliability, was 0.847, which confirms the internal consistency of the scale. As a result of this analysis, one principal component was obtained which explains 74.620% of the overall variance (Table 2).
- The second explanatory variable in this study is the time, in years, spent living as an immigrant in Spain (*time\_Spain*).
- The third explanatory factor considered in the models is the fact of having other entrepreneurs in the family (*ent\_fam*). This dummy variable takes the value 1 when the respondents had a relative who was a business owner and takes the value 0 otherwise.
- The fourth explanatory factor is proactiveness. It is captured by means of a binary variable that takes the value 1 for the businesses in which formal business planning

and control tasks for monitoring and forecasting the firm's performance were carried out (and 0 for the rest of businesses in the sample).

### C. Control variables

In order to isolate the effect of the “guanxi” variable and the rest of the explanatory factors on the dependent variable (risk-taking), several control values were included in the regression models.

The level of education of an entrepreneur has been pointed out as another factor conditioning risk-taking propensity (Grable and Lytton 1998). Entrepreneurs who have received a better education have stronger capabilities for knowledge acquisition, assimilation, and transformation. These capabilities facilitate the comprehension of business strategic operations and the implementation of formalised procedures, such as business planning and control activities, which may reduce any loss that may occur in the venturing process. Thus, the entrepreneur's level of education may increase the perception of control on the business outcomes and, hence, stimulate risk-taking. However, Felicio et al. (2012) did not find any influence of the training of entrepreneurs and managers on their social capital resources. In this sample, all those interviewed had either primary or secondary education, while there were no individuals with higher education or without primary education. Therefore, the education factor was treated as a dichotomous variable (*education*) that takes the value 0 for individuals with primary education and 1 for individuals with secondary education.

Risk-taking propensity may be also associated with the sector in which the firm operates. Specifically, the barriers of entry into service markets are typically low, especially in the retail trade sector. The setting up of a retail business requires a relatively small amount of capital and less technical know-how or training than in other sectors. Immigrants' businesses in the retail sector may therefore take fewer risks simply due to the characteristics of the sector. A variable identifying the businesses in the retail sector was included in the analysis to control for this possible effect (*retail*).

Additionally, the age of a firm (*firm\_age*) may also influence risk-taking. Organisations may be slow to respond to negative signals from their environment due to established routines. This suggests that entrepreneurs in older organisations might be less likely to engage in risky activities and organisational change than their counterparts in newer organisations (Zahra 2005; Anderson and Eshima 2013). Firm age, measured by the number of years since the firm was founded, is therefore included in the analysis.

**Table 2** Analysis of principal components of ‘guanxi’: (factor loadings)

	Component 1
You can always get valuable information from ‘guanxi’	0.860
You have given much ‘renqing’ to other members of ‘guanxi’	0.891
You have received much ‘renqing’ from other members of ‘guanxi’	0.824
Generally, you have much ‘mianzi’ in the ‘guanxiwang’	0.879

In this analysis, the dependent variable is an ordinal variable. Therefore, an ordered logistic regression specification was employed to test the research hypotheses. The ordinal logistic regression model involves the assumption that the  $\beta$  coefficients are the same for all categories such that the estimation results are a set of parallel lines, one for each category of the dependent variable. The test of parallel lines, used to evaluate the plausibility of this hypothesis, showed no significant result, which indicates that the ordered regression model is suitable for this case. The model was estimated using the maximum likelihood method. The same models were also estimated as linear regression models using the ordinary least squares (OLS) method with equivalent results (which are available under request).

The overall results of the regression analysis show that the models are well constructed. The omnibus test is always significant ( $p > 0.05$ ), denoting the acceptance of the hypothesis that  $\beta$  coefficients are different from zero. The estimated models present a high goodness of fit. The empirical analyses were carried out using the Statistical Package for Social Sciences (SPSS), version 24.0.

Table 3 shows the correlation matrix. High correlations can be observed between the “guanxi” variable and other independent variables. Social capital within the ethnic community increases reasonably with the length of time that the immigrant reside in Spain and is higher for those Chinese immigrants who have other business owners in their family. Therefore, the existence of a family business contributes towards the expansion of social networks for immigrant groups. The age of the firm is also highly correlated with the time in Spain, as could be expected. Nevertheless, the variance inflation factors (VIF) and condition indices (CI) indicate that multicollinearity represents no serious problem in the models. The highest condition index is 22.57 and the highest VIF is 2.59, this being observed for the variable “Time in Spain” in Model 4, which includes all the independent variables.

## Empirical results

The results obtained are presented in Table 4 as follows: Model 1 includes only the control variables; Model 2 gathers the control variables and the “guanxi” variable; Model 3 includes the control variables and the rest of the explanatory variables (with the exception of the “guanxi” variable). Model 4 presents all the control and the explanatory variables together.

Regarding the control variables, the coefficients for the age of the firm (*firm\_age*) (with a positive sign) and operating in the retail sector (*retail*) (with a negative sign) are statistically significant in Model 1. However, the coefficient for *firm\_age* turns out to be negative (albeit statistically non-significant) in Models 2, 3 and 4, as suggested by previous literature (Zahra 2005; Anderson and Eshima 2013). Therefore, the significant and positive coefficient of the age of the firm in Model 1 can be attributed to this variable being correlated with the variables referring to “guanxi” and to the time in Spain (see Table 3), which are observed to have a significant effect on risk-taking propensity, as explained below. On the other hand, the businesses in the retail trade sector are observed to have a lower propensity to take risks compared to those operating in other sectors. Notwithstanding, that effect also turns out to be non-significant in the

**Table 3** Correlation matrix

	Risk-taking	Time_Spain	Education	Entre_fam	Retail	Firm_age	Planning	Guanxi
Risk-taking	1							
Time_Spain	.382**	1						
Education	-.121	-.066	1					
Entre_fam	.453**	.352**	.036	1				
Retail	-.161	-.105	.045	-.073	1			
Firm_age	.240**	.740**	-.031	.250**	-.088	1		
Planning	.624**	.257**	-.161	.240**	-.238**	.152	1	
Guanxi	.741**	.500**	-.097	.557**	-.150	.365**	.565**	1

\* Significant at 0.05 level (bilateral).

\*\* Significant at 0.01 level (bilateral)

remaining models. In the case of the education level (*education*), the coefficient presents a negative sign in the four models, but is not statistically significant.

The main explanatory variable in this paper is “guanxi”. As can be seen in Table 4, the “guanxi” variable has a positive sign and its effect is statistically significant in Model 2 and Model 4 (at a 99% confidence level in both cases). Other model specifications were estimated (also including other controls) as robust checks and the results were consistent in showing a significant effect of the “guanxi” variable on the risk-taking variable, as postulated in Hypothesis H1.

Consequently, the main hypothesis is supported by these results: the risk-taking propensity of Chinese immigrants’ businesses seems to be stimulated by the “guanxi” of the entrepreneurs. A better “guanxi”, that is, the availability of greater social capital resources within the Chinese immigrant ethnic group, represents a crucial factor that conditions the management and the development of the first-generation immigrants’ businesses. This factor might contribute towards explaining the entrepreneurial success of Chinese immigrants in Spain and, probably, in other European countries. “Guanxi” is a source of knowledge of the business activity and the conditions of the local market and provides a safety network that favours the assumption of entrepreneurial risks. It compensates for the absence of social connections with the native population, which is especially severe in the case of first-generation immigrants.

On the other hand, the immigrants’ time in Spain (*time\_Spain*), the presence of other business owners in their families (*entr\_fam*), and the undertaking of formal business planning and control activities (*planning*) are observed to be statistically significant in Model 3, which includes the control variables, but excludes “guanxi”. The signs for their respective parameters are positive. Nevertheless, in Model 4, when the “guanxi” variable is also included, the signs of the coefficient for those variables remain positive but the statistical significance of the effects vanish with the exception of the proactiveness variable (*planning*).

Although Hypothesis H2 is not fully confirmed with those results, it seems to be that the propensity to risk-taking might be greater in the case of the immigrant entrepreneurs who have been in Spain for a longer time. This may be due to a greater knowledge of the local environment and an increase in the perception of control which can be

**Table 4** Ordinal logistic regression regarding risk-taking

	MODEL 1			MODEL 2			MODEL 3			MODEL 4		
	B	S.E.	Sig.	B	S.E.	Sig.	B	S.E.	Sig.	B	S.E.	Sig.
(Risk = 2.00)	-1.425	0.749		-2.593	0.815	**	0.426	0.902		-1.313	0.987	
(Risk = 3.00)	1.108	0.725		1.222	0.821		3.676	0.980	***	2.601	1.097	*
(Risk = 4.00)	1.509	0.730	*	1.874	0.826	*	4.283	0.997	***	3.328	1.108	**
(Risk = 5.00)	2.119	0.740	**	2.879	0.839	**	5.216	1.024	***	4.466	1.128	***
(Risk = 6.00)	3.761	0.801	***	5.576	0.951	***	7.746	1.150	***	7.685	1.267	***
Control variables												
Education	-0.506	0.334		-0.313	0.360		-0.275	0.353		-0.235	0.368	
Retail	-0.578	0.326	*	-0.200	0.350		-0.065	0.346		-0.043	0.360	
Firm_age	0.312	0.107	**	-0.039	0.119		-0.096	0.167		-0.179	0.174	
Explanatory variables												
Time_Spain							0.353	0.17	*	0.227	0.184	
Entr_fam							1.912	0.555	**	0.711	0.599	
Planning							3.145	0.592	***	2.108	0.639	**
Guanxi				2.644	0.322	***				2.052	0.365	***
Goodness of fit												
Chi-squared (Sig.)	13.966 (**)			105.918 (***)			85.917 (***)			122.861 (***)		
-2 log-likelihood	204.793			286.533			255.915			280.807		
Nagelkerke R-squared	0.106			0.581			0.507			0.641		

\* Significant at the 90% confidence level.  
 \*\* Significant at the 95% level.  
 \*\*\* Significant at the 99% level. N = 129 valid cases

associated with this time factor. The longer Chinese immigrants live in Spain, the better they can assess risks because they have more information and better understanding of the Spanish market.

Furthermore, the results partially support Hypothesis H3. The risk-taking propensity of Chinese immigrant-owned businesses is higher in the case of those immigrants with other business owners in their families. These entrepreneurs may have more information to evaluate risks and a stronger perception of control regarding their business activity. Moreover, in these cases, risk-taking can be perceived as a more natural issue due to the family business environment.

However, the results fully confirm Hypothesis H4, since the planning variable is the only variable that remains statistically significant in Models 3 and 4. The risk-taking propensity of Chinese immigrants' businesses is greater in the case of the Chinese entrepreneurs who carried out business planning and control activities in their companies on a regular basis. Planning and control tasks assist in the entrepreneurial decision process of entrepreneurs and increase their perception of control and confidence in success. The business owners who have more confidence in their decisions are therefore less risk adverse (Ghosh and Ray 1997).

## Conclusion

This study has sought to empirically assess the impact of “guanxi”, a particular type of social capital characteristic of Chinese society, on the risk-taking propensity of the Chinese immigrants' businesses. Chinese immigrants often represent an “enclave” social group within their host societies. Thus, “guanxi” acts as a “bonding” form of social capital which could be crucial in the Chinese immigrants' migration and entrepreneurial adventures. To date, few studies have explored the impact of “guanxi” on entrepreneurial activity and, to the best of our knowledge, this study is the first to address the effects of “guanxi” on organizational risk-taking. In this way, the paper contributes to the literature by providing a mechanism through which “guanxi” has an effect on firm performance in immigrants' businesses.

The results reveal that “guanxi” plays a highly significant role in stimulating risk-taking in Chinese immigrants' businesses in Andalusia (Spain), after controlling for other relevant factors. This effect might be explained by two main reasons. On the one hand, entrepreneurs need a lot of information to evaluate risks and “guanxi” can provide a dense network of social ties that facilitates access to this information. Furthermore, entrepreneurs need other resources (funding, human resources, etc.) in their business activity, and “guanxi” can also constitute an important means to attain these assets. The availability of relevant information and other resources can therefore encourage immigrant entrepreneurs to undertake more risky initiatives in their businesses. On the other hand, “guanxi” can act as a mechanism to facilitate risk sharing and risk distribution within social groups. In this way, Chinese immigrants with better “guanxi” could feel that they are more protected against a negative evolution of their businesses.

The results of this paper also show that those Chinese immigrant entrepreneurs who have other business owners in their families are more liable to take risks. These types of families represent a microenvironment with stronger entrepreneurial values, and their



members could be characterized by a higher propensity to take risks in their business ventures.

Furthermore, the risk-taking propensity of immigrant-owned businesses increases over the years in Spain after the immigration process has been completed. A longer stay in the destination area can facilitate access to information and other resources, thereby increasing the immigrant's perception of control and self-confidence. Finally, the undertaking of business planning and control activities has also been observed to substantially favour the organizational risk-taking propensity.

One limitation of this research is the fact that the risk-taking variable is captured by one single question. A construct with a number of items could have provided a more accurate measurement of this dimension of corporate entrepreneurial orientation. Moreover, the availability of a larger dataset would have improved the robustness of the results.

It is important to take into account that this paper has a focus on first-generation immigrants. These immigrants have a reduced level of integration into the local society, given the short time that they have been living in Spain and their low level of Spanish language. The linguistic and social isolation would induce the Chinese immigrant entrepreneurs to make more use of the social capital within their ethnic group. The existence of a network of contacts with other Chinese immigrants in the destination area constitutes a prior condition for their immigrant process towards Spain.

Further research could compare the effects of “guanxi”, as a form of “bonding” social capital, and the social connections with locals in the host areas, as a form of “bridging” social capital. The latter assumes a critical role in subsequent phases of business development and for the following generations of business owners in these family businesses. “Guanxi” is a key factor for the creation and initial development of Chinese immigrants' businesses, but it is the social relationships with locals that may assure the sustainability and full assimilation of immigrants' businesses over time. In this respect, immigrants' businesses face the risk of becoming “over-embedded” in their own ethnic group, which could cause a “lock-in” effect and keep them captured in the “ethnic niche” phase of the development of immigrants' businesses. This paper focuses on just one facet of the “mixed embeddedness” of immigrant entrepreneurs, that of the ethnic social capital, and justifies its critical role in the first stages of the migrant entrepreneurship. However, the development of immigrants' businesses becomes less dependent on the ethnic resources over time, and advances towards their local embeddedness instead.

This different role of social capital in other stages of the development of an immigrant's business can have implications on public policies oriented towards fostering migrant entrepreneurship. Furthermore, public initiatives supporting the business training of immigrant entrepreneurs could lead to a more professional management of their businesses. Stimulating business education for immigrant entrepreneurs might raise the growth potential of their business projects by means of favouring proactive and professional management.

In future research, it would also be interesting to analyse whether guanxi, by means of stimulating organizational risk-taking among other mechanisms, could play a relevant role in the ascent of Chinese immigrants' businesses on the ladder of economic value, which has recently been observed in Spain. Certain Chinese businesses are moving away from traditional low-value-added activities, such as retail businesses and

restaurants, towards owning fashion chains, import-export businesses, media groups, and law firms (Burt 2014). This evolution, which has also been observed in other countries (Chan 1992), could lead to the “economic assimilation” (Ward 1984) of Chinese businesses. This is far from being the case yet, but in order to advance in this direction, Chinese businesses will have to undertake expansion and diversification projects, which will necessarily imply the assumption of new entrepreneurial risks.

Finally, it is worth bearing in mind that the central hypothesis in this paper and its argumentation could be extrapolated to include other forms of social capital and other communities, and that it is not necessarily restricted to immigrant entrepreneurs. Entrepreneurs’ social capital might contribute towards explaining the differences in risk-taking propensity in all SMEs. Researchers should consider this factor when analysing the growth and development of these types of companies.

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