

Neither Collectivism Nor Individualism --Trust in Chinese Guanxi Circles

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Abstract

This paper illustrates the phenomenon of circles in the Chinese culture, including the type and role of trust in such circles. The Chinese national culture is thought of as a culture of collectivism, which in turn makes the Chinese network structure dense and closed in organizational settings. However, we find that there are also aspects of openness and flexibility in both Chinese business and social networks. In general, a circle is an ego-centric network. Second, it has a structure of "differential mode of association". Finally, the boundary of a circle is not closed, and outsiders may be included in the circle. That makes the Chinese network structure flexible to opening or closing. This flexibility may be rooted in the Chinese guanxi operation, and trust plays the key role in guanxi operation circles.

Key Words: Circles; Guanxi; Familiar ties; Coupling

Introduction

This paper illustrates the phenomenon of circles in the Chinese culture, including the type and role of trust in such circles. In general, circles are small and informal groups at the Chinese workplace, and their boundaries are comparatively open and adjustable. That makes the Chinese network structure flexible to opening or closing. This flexibility may be rooted in

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the Chinese guanxi operation.

Trust plays the key role in guanxi operation circles, especially in the operation of familiar ties (Yang, 1993; Luo, 2005). Trust in familiar ties, which mix instrumental and expressive motivations together (Hwang, 1987), is also very complex. The balance between contradictory motivations keeps trust within guanxi, of this sort, at a high level, but it also reserves more room for flexible operation beyond strong ties. Trust is also the mediator between guanxi and economic actions (Granovetter, 1985). For examples, for a focal person, high trust makes resources in strong ties easily mobilized, but the dilemma follows—the tight relations in a closed and dense network also bring strong constraint to that focal person (Granovetter, 2002). However, high trust in the familiar ties brings about much more flexible room in economic actions and avoids this dilemma. This is a puzzle deserving our attention, since it may provide a structural explanation for why Chinese are good at starting up enterprises (Granovetter, 1995).

The Chinese national culture is thought of as a culture of collectivism, which in turn deeply influences the Chinese behaviors in organizational settings (Hofstede, 1991; Earley 1994; Chen, Chen and Meindl 1998; Morris and Peng 1994). The Chinese firms are thought of in the context of the East Asian model of firms, of which, long-term employment and the merging of work and non-work relationships are general aspects of the workplace in collectivist cultures (Chai and Rhee, 2010). However, we find that there are also aspects of openness and flexibility in both Chinese business and social networks.

Some theories show some contradictions to this collectivism argument. For example, Granovetter (1995, 2002) argues that entrepreneurs need to balance coupling with decoupling. Decoupling makes a person's network sparse and open, so that structural holes in the network create opportunities (Burt, 1992). Coupling makes the network dense and closed, so that social capital embedded in the network can be easily mobilized to seize the opportunities.

This has consequences in entrepreneurship as well. The overseas Chinese are thought to be full of entrepreneurship (Granovetter, 1995). In addition to coupling, another question that must be considered is why are the Chinese also good at decoupling and balancing these two opposite forces? To examine this we first need to ask whether there is a difference between the Chinese term “guanxi” and the Western concept of social ties, and also relate both concepts to trust.

The debate over cultural differences in the effects of social networks can be seen in the recurring debate over the strength of weak ties (Granovetter, 1973) versus strong ties (Krackhardt, 1992). Granovetter’s classic statement suggests that strong ties bond persons together who are similar genetically (blood relatives), socio-economically (neighbors), or socially (close friends). Strong ties are intimate and emotionally intense. They involve the perception of equitable exchange and a high degree of repeated interaction. These features increase the probability that persons with strong ties share redundant information. Strong ties effectively increase the opportunities for interaction and to treat one’s interaction partners benevolently. They decrease probabilities that a person will hurt the other member of the strong tie, or defect from the relationship in times of crises or change. In sum, strong ties encourage the formation of trust (Krackhardt, 1992; Uzzi, 1997); and they discourage the probabilities of defection, unjust actions, and perceptions of unfairness.

Weak ties, by contrast, have opposing strengths and weaknesses. Weak ties are likely to connect cliques of people who would otherwise be isolated. They offer organizational opportunities for change and innovation because information is not likely to be redundant. Such opportunities, however, come at the price of (1) less affective reason to act benevolently, and (2) more reason to act selfishly without regard for one’s partner. So, although weak ties have been shown to provide individuals with greater job opportunities – and benefits such as leverage with organizations when the person is a “local” bridge – they also are less likely to

lead to cooperative behaviors and trust in times of crises or radical change.

Based upon the above analysis, we argue that there are a number of distinctions between guanxi and social ties, but two are particularly important. First, unlike social ties, guanxi has a differential mode of association (Fei, 1992). There are at least three rings or layers in each Chinese ego-centric network—family ties (including real and pseudo-family ties; in the following, we will use this term to indicate both real and pseudo-family ties), familiar ties and acquaintance ties (Luo, 2011; or in Yang’s term, *Chia-Ren*, *Shou-Ren* and *Shen-Ren*; Yang 1993; Fu, Tsui and Dess, 2006). Each ring or layer requires a distinctive type of trust with a different role. Second, there is a special type of guanxi named after the familiar tie (Yang; 1993; Luo 2005), which forms the most important part of a Chinese ego-centric social network with a special type of trust with a unique role.

In the following, we will discuss the various rings of Chinese guanxi and their links to the “trust ideal-types” and “trust bases”. Trust ideal-types are delineated by two dimensions--personalized vs. depersonalized and trustworthiness vs. trustfulness, which form a holistic, dynamic and dialectical concept of trust (Li, 2007). Trust bases indicate where trust comes from--personalized or depersonalized sources and dyad or network domains (Li, 2008).

Three Differential Modes of Association and Trust

Most guanxi studies place instrumental exchange relationships at one end of the guanxi continuum and family ties at the other end, denoted by their expressive element (Hwang, 1987; Luo, 2005), affective feelings (Law, et. al., 2000; Chen and Peng, 2008), or closeness (Chen and Chen, 2004; Fu, et. al., 2006). It is possible to view affective attachment as the main theme of guanxi of this sort. However, expressive and instrumental elements are seen as independent of each other (Yang, 1995), so this classification system should not be a continuum; rather, the categorization should be a two-dimensional panel system scattered with various types of guanxi, which combine different expressive and instrumental

ingredients (Luo, 2011).

Family ethics can be applied to this innermost ring of guanxi, while at the other extreme of the guanxi continuum, family ethics means nothing to strangers. Family ethics parallel with what Granovetter calls “consummatory motivations”, which are composed of passion, love, friendship and identity. In the discussion with Hardin’s “encapsulated-interest account” of trust (2001), Granovetter³ speculates that real trust can hardly be built if relationship continues only due to the benefits resulted from the relationship, such as money, prestige, reputation and resources. True encapsulated interests should be based on the consummatory motivation—i.e. relationship continues for its own sake. Your behavior that hurts your beloved person is thus also harmful to you. It is unthinkable for the two sides to betray the relationship of this sort, and real trust can thus be built. As Granovetter puts it (forthcoming, Chapter 3, Page 6):

“So the issue is whether you value a relationship for its own sake, as in love or close friendship, or you value it for something to be gained that is outside the relationship itself. Where your concern about the relationship is not instrumental in this way, but consummatory, then encapsulation of interest is genuine, and any harm to the other’s interests, detected or not, would be harmful to you as well.”

Within this small inner ring of family ties, the Chinese are required to be collectivistic, so the principles of obligation and benevolence are applied. Self-interested behavior in such a context is viewed as immoral. It is unthinkable for a person to betray this guanxi. Hwang (1988) therefore called the exchange principles “the rules of need”.

The Chinese families are involved with not only affective feelings and emotional attachment but also various social functions, from education and self-defense to cooperative economic actions (Fei, 1992). Unbreakable relationships actually feature the Chinese family relations. So, family ties are defined not only by interpersonal affection and community identity, but also by unavoidable obligation and unbreakable relationship.

³ It is cited from Granovetter’s forthcoming article “Trust” in the Chapter 3 of book “*Society and Economy*”. I appreciate the special permission of the author to let me cite the book.

There are two kinds of trust bases involving *guanxi* of this sort. The first being the consummatory characteristics that provide personalized dyad trust. In addition, the second kind of trust base is built on norms in a personalized network. That is, people dare not betray a relationship of this sort, since strong norms and mutual monitoring in a small and closed network make it unthinkable for both sides to betray the relationship.

The Chinese concept of *Lun* (or moral codes in family relationships) is the behavioral and moral standard best fit for the innermost ring. Following the argument of emancipation theory, such involuntary relationships must be characterized by assurance, rather than real trust (Yamagishi and Yamagishi, 1994; Yamagishi, Cook and Watabe, 1998). The strong requirement of collectivist norms is often strongly enforced in such a small group. The emancipation theory of trust (Yamagishi and Yamagishi, 1994) well explains the “trust” bred in the category of family ties. A major distinguishing feature of trust versus committed relations is the risk of exploitation by others (Yamagishi et al., 1998). The ring of family ties is rather small and closed, the monitoring within the group is strong, and the risk of exploitation is thus small.

The principle of *Lun* is a very strong norm, and the whole family and community will condemn anyone who breaks the norm. The norm *Lun* requires collectivistic behavior, in the sense that family members should satisfy the needs of other members without asking for recompense (Zhai 2005). Due to the monitoring that characterizes such a closed group, social interactions within this ring are predictable and behavior is reliable. This is what Yamagishi and Yamagishi refer to as committed relations (1994), which are “trustworthy” due to the monitoring and sanction of strong norm, so risk of exploitation will be minimized. *Lun* prevents a person from betraying his or her family ties, even after the expressive ingredient in the *guanxi* no longer exists.

Based on these two trust bases, trust in family ties is mainly the type of personalized

trustfulness as trust-as-choice (Li, 2008). Unbreakable relationships, unavoidable obligations and strong normative pressure leaves a focal person limited room to not choose a family tie in cooperative actions, even though he or she may not be very trustworthy. It is especially true in the ring of real family ties. In other words, behavioral trust often exists, but there may or may not be trustworthiness in this form of guanxi.

However, in the dimension of “trust-as-attitude,” the Chinese still take real family ties as their most trustworthy relationship (Wang and Liu, 2003). This attitude may be caused by thinking that these ties are most trustworthy in aspect of benevolence and loyalty. Among the various dimensions of trustworthiness (Butler, 1991; Mishra, 1996), benevolence and loyalty are most important for the Chinese, especially in a highly uncertain environment.

Second, the peripheral ring is acquaintance ties, or *Shen-Ren* in Yang’s term, which are instrumental exchange relations, either for social or economic exchanges. The guanxi of this sort constitutes another extreme of the guanxi continuum, defined by its instrumental element (Hwang, 1987; Luo, 2011; Law, et. al., 2000; Chen and Peng, 2008; Chen and Chen, 2004; Fu, et. al., 2006). In the interactions with acquaintance ties, the Chinese are individualistic, so rational calculation of self-interest and bargain of price are allowed (Hwang 1988). Fair exchange is the principle good fit for this category. Hwang calls this “the rule of equity,” and it represents the behavioral standard for acquaintance ties.

In this category, trust can be built on the calculative base (Williamson, 1996). The encapsulated-interest account of trust (Hardin, 2001) asserts that an individual trust another person because his or her interests are encapsulated in the other’s interests. This viewpoint parallels with Game Theory, which speculates that an actor trusts the other players in repeated games, since betrayal is not a good strategy for gaining more interests in future games (Dasgupta, 2000). The trust base of this guanxi is built on personalized dyad sources, since both sides need to be familiar with the other side’s characteristics and interests. Trust in

acquaintance ties is thus not like that of strangers, which is mainly based on depersonalized sources.

In addition to calculative-based trust, there is also a normative basis of trust in the *guanxi* of this sort. An indigenous Chinese concept called *Bao*, is a highly appreciated basis of morality in China. *Bao* is close in meaning to what Coleman (1990) called “obligations and expectations” embedded in his constructs of social capital, since it builds up process-based trust, which is rooted in the reciprocity in social interactions (Creed and Miles, 1996; Zucker, 1986). In *guanxi* involving with social exchanges, expectation of the other side’s good will to reciprocate is necessary, since social exchanges can’t ask instant return (Blau, 1964). Process-based trust is embedded in specific social relations, and *Bao* provides a mechanism embodying these crucial requirements of trust of this sort among the Chinese people. The process of reciprocity thus provides mutual trust, which possibly mobilizes latent social capital to be active if necessary. *Bao* encourages a person not to betray his or her acquaintance ties, even though the betrayal satisfies his or her short-term interest.

The norm of *Bao* forms a base of personalized network trust (Li, 2008). Unlike *Lun*, which enforces strong pressure in a small closed network, *Bao* helps to construct a reputation system in a larger community. In addition, a word-of-mouth reputation system may support the enforcement of these norms. In a larger community in which people have direct (one-step distance) or indirect (in general, only two-step distance) to connections with others, a person’s behaviors can be monitored and his or her reputation will be recorded according to normative requirement (Zhai, 2011). Even though acquaintance ties may or may not last for long period of time, their evaluations of the focal person are also accumulated in this reputation system. In the daily life of a Chinese, face is a good indicator of his or her reputation. A Chinese can sensitively measure his or her reputation in a group of people by face manipulations (Zhai, 2011). Losing face means that this person has lost both status and

reputation in a relation or a group of relations. Keeping face evidences the stay of original reputation. Gaining face indicates that he or she obtains new reputation.

Built upon these two trust bases, trust within acquaintance ties is primarily personal trustworthiness which reflects trust-as-attitude (Li, 2007). Both sides need to demonstrate trustworthy behaviors to gain other side's trust, and then cooperative actions rather than inharmonic behaviors can occur. Without the cognition of trustworthiness of the other side, there will not be any behavioral trust among these ties. In other words, one must show trustworthiness in this type of *guanxi*. However, but trust behaviors may not necessarily follow.

Third, the Chinese institution of familiar ties, or *Shou-Ren* in the terms of Yang (1993), is characterized by a combination of instrumental and consummatory motivations. This institution creates unique opportunities for expanding social circles based on family ethics new to the Western cultures (Liang, 1983; Bond and Hwang, 1986; Boisot and Child, 1996; Chua et. al., 2009). Strong personal trust can also be built up through the rule of favor exchange (in Chinese, "*ren quing fa zei*"), which creates the expectation of frequent exchange of favors among one's ring of familiar ties (Hwang, 1987; Tusi and Farh, 1997).

Familiar ties in the Chinese society are a type of strong ties. The distinction between strong and weak ties in the Western society can be measured by four factors—duration, interaction frequency, intimacy and reciprocity (Granovetter, 1973; Marsden and Campbell, 1984). The higher a relationship scores in these four areas, the stronger it is. In this sense, familiar ties are like strong ties, since they involve not only intimacy but also reciprocity.

In the Chinese particularistic society, the rule of favor exchange that guides familiar ties introduces a kind of quasi-collective behavior not true of acquaintance ties. However, such familiar ties are the mixture of instrumental and expressive ties (Hwang, 1987), so self-interest and calculative rationality are still central elements in this category. The

principles guiding instrumental exchanges are also applied to this ring.

The moral requirement for this category, *Yi* (translated as the norm of brotherhood in English), requires one to provide favors—important and personally tailored acts of assistance—for the partner without asking return, but these favors need to be returned. Returning friends' favors is an obligation expected within this category. Accepting favors but forgetting to return them is blameworthy, leading to increased pressure for individuals to reciprocate. This is in keeping with the principle of *Bao* (in Chinese; translated as the norm of reciprocity in English), in long-term favor-exchanging processes that enhance the probability that all parties of the *guanxi* will come to trust each other. Both *Bao* and *Yi* are the behavioral and moral standards for the category of familiar ties.

Trust in Familiar Ties

The trust in familiar ties is complex, since consummatory and instrumental motivations coexist and *Bao* and *Yi* also mix together. How do Chinese maintain a high level trust in *guanxi* of this sort and avoid strong constraints at the same time? This question leads us to investigate the Chinese special thinking of “Yin and Yang.”

In contrast to the analytical thinking based on taking the whole as the integration of parts, Chinese “Yin and Yang” thinking transcends the either/or (independent opposites) framework to *either/and* framework (Li, 1998, 2008, 2011; cf. Chen, 2002; 2008). It views everything as a holistic system, in which the opposite forces naturally coexist and integrate. These forces complement one another but also work to balance each other at the same time, thus partially complementary and partially conflicting. In a long-term dynamic process, they will dominate the system in turn. This is similar to the dialect thinking (Poole and Van de Ven, 1989). The philosophy of “Doctrine of Middle Way” is based on the “Yin and Yang” thinking, and requires that an actor needs to keep a dynamic balance of the holistic system (Chen, 2002). In brief, “Yin and Yang” thinking helps two extremes coexisted in the Chinese daily life, and he

or she needs to dynamically balance the conflicts between the opposite forces.

For interactions with a familiar tie, the Chinese often need to balance his or her consummatory and instrumental motivations in their relationships in relation to favors. On the one hand, favor exchanges actually aim at instrumental interests. On the other hand, long-term and fair favor exchanges also breed friendship. The operational art in familiar ties is to balance these two opposite motives, so that trust can be maintained in a high level. As Granovetter puts it⁴, “So individuals have some reason to be continuously scanning relationships to determine the balance of motives [consummatory or instrumental] behind them.”

Because familiar ties mix both instrumental and consummatory motives, the trust bases within familiar ties are three fold, involving calculative-based, affective-based and normative-based trust. Favor exchange facilitates two trust-building mechanisms within familiar ties. First, friendship breeds affective-based trust (Krackhardt, 1992; Granovetter, 2002). Second, each side needs to continuously demonstrate trustworthy behaviors, so that the repeated games keep going on and calculative-based trust is raised (Dasgupta, 2000). However, instrumental motivations also sometimes hurt friendships. Overuse and inadequate use of favors may damage the *guanxi* and even sever the connection. So, for Chinese, they always need to evaluate the value and cost of favors offered by a familiar tie, and be ready to pay back favors with equivalent value. He or she may ask favors when in need, but return the favor at a more convenient time. Delayed repayment relieves the focal person free from tight constraints.

Based on the long-term thinking of the Chinese (Leung and Bond, 1989), norms generally play a great important role in *guanxi* operations. Both parties in a *guanxi* think of themselves as engaging in a possible endless game with many unknown uncertainties. As an

⁴ From Granovetter's forthcoming article "Trust" in the Chapter 3 of book "*Society and Economy*"

old Chinese saying said, “we sooner or later will see each other in the future”, so each of us had better follow the norms to avoid damaging the relationship. In addition, the Chinese believe that life is uncertain. As a old saying said: “(luck stays) in east bank within this thirty years, in west bank in the following thirty years.” So a person sooner or later needs others’ help in unlucky situations. Adhering to norms and thus retaining relationships are a good strategy for future uncertainty (Luo and Yeh, 2008). That is why *guanxi* operation generally plays an important role in uncertainty, such as in the business environment without strong institutional support (Lovett, et. al. 1999; Peng and Luo, 2000), in small, newly founded, or nonstate-owned firms (Park and Luo, 2001; Li and Zhang, 2007), and in transactions with higher stakes and risks (Zhou, et. al., 2003).

Favor exchanges among familiar ties often last for a very long time, even as long as a person’s whole life. In such a long-term exchange, uncertainty is too high to be predicted. Thus a rational-choice calculation of costs and benefits turns to be not very useful, and following norms becomes a good strategy. Under the norm of *Yi*, favor-giver cannot ask for favor in return, but *Bao* requires the favor-taker never to forget the favor. So both sides of familiar ties have favor accounts in their mind and they continuously scan the accounts. Before the tolerance threshold is broken on one side, the Chinese generally follow the norm of *Bao* and *Yi* to keep exchanging favors so that he or she reserves social capital for a rainy day.

The normative-based trust of this *guanxi* is built upon personalized network sources. The motivations for a Chinese to take care of his or her reputation are intertwined. On the one hand, norms have been socialized into the instinct reactions of a Chinese. On the other hand, building good reputation is an important strategy to attract more resources in the future. This reputation system thus transforms the Chinese short-term interactions into long-term favor exchanges in *guanxi*.

Based on the three-fold trust bases, trust in familiar ties shows us both personalized trustworthiness in “trust-as-attitude” and personalized trustfulness in “trust-as-choice.” These two ideal-types of trust are highly correlated in the *guanxi* of this sort. Especially in the long run, the lack of one will destroy the other type of trust.

Insert Figure 1 about here

Summarizing the above-stated arguments in the Figure 1, we get the following points:

1. The Chinese *guanxi* is a continuum with features such as “differential modes of association” and family-ethics.
2. Family-ethics can be best captured by the concepts of consummatory motivation, unavoidable obligation, and an unbreakable relationship, which are involved with affective-based trust and assurance. Family ethics denotes the features of family ties (including real and pseudo-family ties). On the contrary, acquaintance ties are featured by short-term relationship with instrumental motives and calculative-based trust.
3. Familiar ties are the mixture of instrumental and consummatory motives. The art of favor exchanges balances these two opposite forces, so that trust can be maintained at a high level when the relationship is not as intimate or closed as those with family ties. The existence of familiar ties gives the Chinese flexible room in *guanxi* operation.
4. Norms based on family-ethics, both *Lun* and *Yi*, play a great important role in the Chinese *guanxi*, and help transforming short-term transaction relations into long-term favor-exchange ties.

As a result, these features of *guanxi* bring about a structural outcome—circle, or in

Chinese, *Chuan-Zi or Xiao Chuan-Zi* (small circle).

The Structure of Circle

The ring of acquaintance ties is a sparse network, in which inter-group bridges are embedded, as suggested by the theory “strength of weak ties”(Granovetter, 1973). Thus, the focal person may find structural holes in this network, and then create opportunities (Burt, 1992). On the contrary, the ring of family ties is a dense and closed group. Closure can bring about mobilized social capital (Lin, 2001, Cook, et. al., 2004), by which a Chinese person builds up the reservoirs of resources to seize the opportunities. However, this innermost ring of family ties is too small to mobilize enough resources for achieving personal goals, so they find ways to expand this inner ring by applying family-ethics to outside group (Yeung, 2000; Chua, et. al., 2008). That is why the institutions of familiar ties are evidenced, and circles are built up to imitate families. In other words, trust can transform non-family ties into family-like ties. In this regard, the personalized trust, which is typical in the Eastern societies, plays a critical role as compared to the depersonalized trust in the Western societies (Li, 2008).

A circle⁵ is used to simulate a family for the Chinese workers at the workplace. It is generally developed from an ego-centric social network, and only strong ties, including real- and pseudo-family as well as familiar ties, are included. That is why the circle can be named after someone, such as manager Chang’s circle or CEO Lin’s circle, etc.. The special features of circle, as a type of action-sets (Mayer, 1966), are that only strong ties can be included, the series of actions last for a very long time and include various types of actions, ranging from accomplishing tasks, achieving organizational goals, to struggling for organizational resources for its own use, and expanding its power.

Anthropologist Hsu has (1981) argued, the Chinese family ethics is contingent on

⁵ Circle may be used to indicate a large community, such as professors’ circle, doctors’ circle, and so on. In this paper, we use this term to indicate a small group, and it is often called “small circle”.

situations. In other words, the Chinese are collectivist at the workplace when and only when engaging in exchanges with circle members, who form an imitated family. I thus define a circle (actually, small circle) at the workplace as following: “A small action sets in which people engage in strong and long-time expressive and instrumental exchanges. It is an informal group developed from an individual’s ego-centric network.”

Although a circle is often built up around a leader’s ego-centric social network, circle members may recruit their own familiar ties to join in the circle. In the process of circle operations, all members construct familiar ties among one another. So it generally has a dense and long-term lasting network structure, in which the strong norms of reciprocity will be enforced by group pressure. A circle thus provides a person with safety environment against various uncertain situations.

Following the similar structure of *guanxi*, a circle is also denoted by differential modes of association. Family is the most important unit in the Chinese social life, since it provides not only feelings of belonging and security but also a reservoir of resources (Liang, 1983; Yang, 1993). Although family ties are built on affection and identity, the unavoidable obligation in cooperative actions also features this *guanxi*. So, unbreakable relationships with consummatory motivations mark the core of a circle, which is often called basic team (BanDi; Chen, 2007) or confidant (Ching-Xin; Chi, 1996), since the members in this ring are especially intimate and form unbreakable relations.

At the other end are those outsiders with the short-term relationship and self-interested motivations. In the continuum between unbreakable core membership and short-term outsiders’ relations, there exists a third type of *guanxi*, familiar ties, which can be defined by the Chinese long-term thinking (Leung and Bond, 1989) and the mixture of consummatory and instrumental motivations.

The structure of a circle is typically built around a focal person. It is this focal person

who mobilizes his or her family ties and familiar ties to form a circle. A focal ego's familiar ties join in the circle not only for consummatory motives—affection, identity and loyalty, but also for long-term favor exchanges, so that they can develop their own ego-centric social network for accumulating social capital for themselves personally rather than for the circle collectively. Hence, long-term favor exchanges construct the paradoxical forces in guanxi operations. On the one hand, a circle member, either a core or a peripheral member, should illustrate his or her team spirit and loyalty for the collective circle. On the other hand, a peripheral member actually engages in favor exchanges for accumulating social capital and achieving personal goals outside the circle in the future. As a result of the paradoxical operations, peripheral members of a circle, mainly composed of familiar ties, have only limited liability, restricted scope of exchanges, and long-term (yet flexible and breakable) relationships (Li, 1998). This is a protective belt of a circle, which makes a circle more flexible than the innermost closed group—i.e. basic team or confidant.

This protective belt of circle has two important functions. One is that it is enough to mobilize latent social capital when in need (Lin, 2001), but will not be troubled by tight coupling. On the one hand, we see the expressive ingredients in familiar ties build up affective-based trust. The other is that both sides need to behave trustworthy in the process of repeated favor exchanges; otherwise, the relationship may cease. The norm of reciprocity, *Bao*, furthermore guarantees the demonstration of trustworthy behaviors (Coleman, 1990). If such behaviors are absent, the untrustworthy side will be blamed and his or her reputation could be damaged by the word-of-mouth in a larger community, in which all members are directly or indirectly connected.

On the contrary, core members of a circle are in a small and closed group ruled by strong norm of *Lun*. Consummatory motives make affection and identity-based trust (Shapiro, Sheppard and Cheraskin, 1992) in this guanxi extremely strong. Yet, the pressure and

sanction from group monitoring aligns core members' behavior, is what provides assurance in committed relations (Yamagishi, et. al., 1998), rather than real trust (Granovetter, 2002). Especially when the relationship is irreplaceable and unbreakable, such as a real-family tie, the trustworthy behaviors may be sacrificed for the sake of expressive reasons. Peripheral circle members are composed of familiar ties, and they may have no less trust than family ties (Luo, 2011), including not only the characteristic-based depersonalized trust in terms of trust in others' competence and integrity (Zucker, 1986), but also the relationship-based personalized trust in terms of mutual trust due to shared-interest, shared value and shared affect (Li, 1998, 2008).

Trust is also the mediator variable between social relations and economic actions (Granovetter, 1985). Familiar ties thus may have the same ability to mobilize social resources as family ties, since they have an even higher degree of trustworthiness than family ties (Luo, 2011). However, they are not as strongly constrained as the core members, since they have limited liability and restricted scope of exchanges. Additionally, the focal ego may mobilize familiar ties in urgent situations, but the favor debt can be delayed to return in good time. These give more room for the focal ego in operations of his or her circle.

The second function is that this protective belt makes the boundaries of various types of guanxi blurred. As suggested by the concept of 'family-ization' (Yeung, 2000), the Chinese used to include non-family members in the pseudo-family (Chua, et. al., 2008; Chua, et. al., 2009). From the very beginning of family-ization, one person may need word-of-mouth reputation or third-party introduction to have the willingness to start a relationship. This is for building the minimum requirement of trust in further interactions (Granovetter, 1985; Luo and Yeh, 2008; Li, 2008).

Then, in the dialogue, two persons may share common narratives, vision, and mind-set, so as to build up cognitive trust (Nahapiet and Ghoshal, 1998). Acquaintance ties thus can be

developed from strangers, and depersonalized trust can be converted to personalized trust (Li, 2008).

In further cooperation, each side may observe the other side's trustworthy behaviors (Mishra, 1996). Then, both sides put more and more personal interests at stake. This is encapsulated-interest account of trust (Hardin, 2001). On the other hand, long-term cooperative actions also breed friendship (Granovetter, forthcoming), which in turn build up affective-based trust. Acquaintance ties thus can be transformed into familiar ties.

Finally, a group of inner-circle members will develop their own identity and norms. This is what Yamagishi and Yamagishi refer to as committed relations (1994), which are trustworthy due to not only strong expressive involvement but also the monitoring and sanction of strong norms, so the risk of exploitation will be minimized. Personalized dyad trust thus can be transferred into personalized network trust (Li, 2008).

The dynamic changes among various types of guanxi make a circle's boundary unclear. The existence of familiar ties makes a circle open to outsiders, and thus increases the flexible operations of a circle. A focal ego may dynamically enlarge or shrink his or her circle contingent upon various situations.

As shown in Figure 1, the boundaries among the three types of guanxi are blurred. An acquaintance tie may be brought into a circle, while a peripheral circle member may be transformed and brought in to be a pseudo-family tie in the innermost ring. These blurred boundaries make the Chinese guanxi a continuum featured by the strength of family-ethics, rather than three categories with different natures. This feature makes a circle's boundary adjustable. It creates the ability to sometimes expand to a larger network and sometimes shrink to a small core group.

The paradoxical thinking balancing instrumental and consummatory motives exists in circle operations, too. In the short term, a circle's member act in collectivist way, but in the

long run, this is only a process for achieving personal goals. A Chinese worker shows loyalty for long-term social exchanges, and in doing so accumulates others' trust so as to expand ego-centric social network. In the long-run, he or she can organize his or her own circle to achieve personal goals. Developing ego-centric social network and organizing a personal circle are the most important motivation of a Chinese worker.

Summarizing the arguments above, we can delineate the structure of a circle as the following: First, a circle is an ego-centric network. Second, it has a structure of “differential mode of association”. Third, just like family ties, core members of the circle are indicated by loyal, unbreakable and intimate relationships, but peripheral members are mainly composed of familiar ties, denoted by long-term relationships with limited liability in favor exchanges. Finally, the boundary of a circle is not closed, and outsiders may be included in the circle.

Conclusion and Discussion

This paper focuses on how Chinese thinking is flexible and allow opening and closing within an ego-centric network. We think that trust in Chinese guanxi operations may provide the answer. Trust in familiar ties can strongly mobilize the resources within them, yet leaves flexibility to avoid too much constraint. In addition, guanxi operations of familiar ties make a given circle more flexible to opening or closing within a larger network. Thus, a Chinese may keep enough room to adjust within his or her ego-centric network.

The Eastern collectivist culture and the organizational model are often characterized by the aspects of a closed, dense and cave-like social structure. However, we can also observe the other side of the Chinese ego-centric network—sparse, open and full-of-bridges. In theory, most Chinese indigenous social scientists also argue that the Chinese are not collectivist. For example, Hsu (1963; 1981) explains the Chinese culture in terms of “situational determinism”. Liang (1983) called the Chinese society a “family-ethics based society”. Following this thought, psychologist Hwang (2001) and Ho (1993) thus call the Chinese

“relationalist,” stressing the guanxi-orientation in this society. All of these arguments emphasized the importance of clan-like small networks in China (Boisot and Child, 1996), rather than collectivism in a large group. Why is there such a dispute between these indigenous theories and those assumed collectivism arguments?

We think that the existence of structural duality is rooted in the Chinese “Yin and Yang” thinking, which reflects the duality as its core construct extends beyond the dialectic thinking with paradox as its core construct (cf. Li, 2008, 2011; Poole and Van de Ven, 1989). The “Yin and Yang” thinking makes a Chinese entrepreneur good at balancing opposite forces. The existence of familiar ties is exactly the result of this thinking. In the operation of guanxi of this sort, the focal ego always needs to balance instrumental and consummatory motives, so that latent social resources will be mobilized when in need, but the favor debt can be delayed to return at a convenient point in the future. This operation helps the focal ego escape from too much constraint caused by tight coupling, thus much flexible.

In addition, familiar ties form a protective belt of a circle, which recruit new members from trustworthy outsiders, and may be transformed into the innermost core by developing family-like relationship. This operation makes a circle’s boundary adjustable. It expands when the focal ego wishes to mobilize more resources for seizing opportunities, but shrinks if he or she needs to reserve the existing resources for a limited time.

The argument for balancing coupling with decoupling (Granovetter, 1995; 2002) makes network theorists pay attention to the dynamic process of structural change. Social capital is found not only to be a static reservoir of latent resource, but also needs to be mobilized by the owner to realize its value (Lin, 2001). Bian (2010) thus proposes a research agenda to study the dynamic mobilization of guanxi. Following this line of thought, the circle phenomenon is observed in this paper for demonstrating the combined usage of various types of guanxi and different trust bases behind their mobilization processes in an ego-centric network. The

flexible operations of familiar ties and the adjustable structure of a circle give the focal ego free room to make his or her network sometimes sparse and sometimes dense depending on the situation. Hence, we propose the construct of circle to effectively explain why the Chinese are not so tightly coupled as predicted by a collectivism argument and the East Asian model of firms.

Under the monitoring of strong norms, all circle members act collectively for the group's interest, and thus indirectly for their personal long-term interests. As Hsu argued, the Chinese collectivism is contingent on situations. If and only if the workplace is like a pseudo-family, then collectivism is expressed. When *guanxi* is potentially life-long and helpful for the future, calculation of short-term interests is often condemned as not wise, but and long-term investment in partnership is thought as wise. Because calculative persons are generally not welcome in such a society, those social norms to maintain one's reputation and achieve one's long-term personal goals at the Chinese workplace are certainly promoted.

The Chinese workers generally get high scores in surveys measuring collectivism⁶, as they value relationships more than task accomplishment; they are mutually interdependent in their actions, and they often take in-groups into account in many practices. However, the Chinese in general will not sacrifice their own long-term interests for group interests, even though they often claim to do so to justify their behaviors. Yet the Chinese are willing to sacrifice short-term interests for long-term favor exchanges, since they know that the benefit of group effort will be much greater than that of an individual endeavor.

From the perspective of short-term behaviors and static structure, circles illustrate the collectivist aspect of the Chinese. However, a circle is not only a collective unit, but also developed around an individual. A Chinese person indeed behaves as a collectivist from a short-term perspective, but in the long-run perspective, he or she does so in order to exchange

⁶Please refer to Hofstede's website <http://www.geert-hofstede.com/>

favors, accumulate latent social capital and achieve his or her own long-term personal goals. In this sense, the Chinese are both collectivists and individualists as reflected by their circles with different types of trust related to the differential modes of association in terms of family (*Chia-Ren*), familiar (*Shou-Ren*), and acquaintance (*Shen-Ren*) ties.

Future Studies

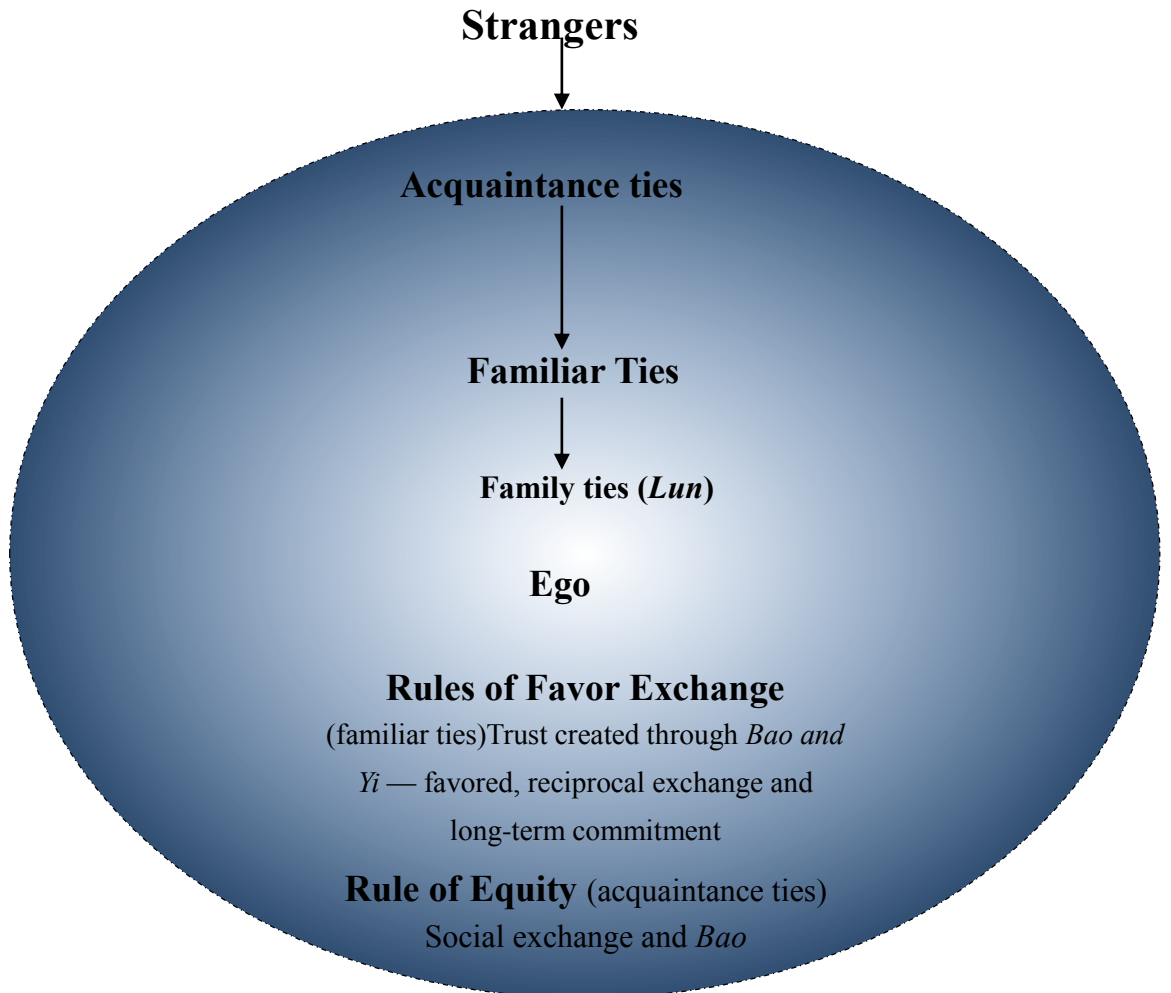
This paper proposes circles as a structured explanation for how Chinese are flexible in adjusting their ego-centered networks, and thus proficient at coupling and decoupling at the same time. Future studies need to address the proper methodology to investigate this circle phenomenon. As argued above, the existence of circles distinguishes circle members from outsiders. In addition, differential modes of association divide a circle into core and peripheral members, and the blurred boundaries allows for various circles to overlap. Thus, bridges exist between the overlapped networks. The nature of circles is that there is a struggling for resources so as to achieve some goals, and that those circles with a powerful person at the center will be different from those having none. Whole-network analysis (Wasserman and Faust, 1994) and ego-centered network (Burt, 1984; Lin, 2001) analysis can be used for distinguishing circle members from outsiders, powerful circles from less powerful ones, core from peripheral members, and bridges from non-bridges.

The above stated is a static analysis of circle structures. However, structures of this sort are rooted in Chinese long-term thinking and dynamic balancing among various forces. So, the most important part of circle studies should be the dynamic process of forming and changing of a circle. In qualitative studies, the following questions should be addressed: Where is the *guanxi* forming a circle coming from? From what motivations and by what behavioral patterns may Chinese convert an outsider into one of his or her circle members? How are new trust bases built up in this process? How do new norms and rules evolve in the forming of a circle? What are the methods to monitor circle members' behaviors? How do circles evolve and interact with other groups in the larger network? Once, we have attained these understandings about a circle, it is possible to build simulation model to model the dynamic process of its forming, evolving and adopting to larger network. Research on

network dynamics (Moody, et. al., 2005) and complex networks (Powell, et. al., 2005) are thus involved, so that the co-evolution of circles and larger networks can be studied.

In a globalized business environment, China has also experienced a change from “a society rooted in the soil” (Fei, 1992) to a complex modern society. The nature of Chinese *guanxi* is indeed changing. However, circle phenomenon remains in today’s society, ex, its prevalence in the hi-tech industrial community. Chinese companies utilize differential modes of association to build up their outsourcing circles. Although it is difficult to mimic the relationships between family and friends in this scenario, each corporate entity will still have similar characteristics, including differing levels of closeness and favor exchanges. This type of differentiation structure was originally discovered through the Wu Fun Pu textile industry research project (Ka, 1993). The research focused on how a company within a specific network structured their exclusive subcontractor, non-exclusive subcontractors and temporary subcontractors, to form a working system to deal with daily operations and market variations. This feature of differential modes of association and blurred boundaries are also found in the Taiwanese hi-tech industry (Luo and Yeh, 2008), which is technique-oriented and open to the world market. However, in comparison with traditional industries, the base of *guanxi* in the hi-tech industry has changed, from the ties with family, extended kinships and similar regions to the ties built on classmates, colleagues and trustworthiness in repeated exchanges (Luo and Yeh, 2002). Throughout Chinese history, the scope of pseudo-family has become larger and larger (Chua, et. al., 2009) and bases of *guanxi*-building kept changing, but *guanxi*-orientation (Ho, 1993; Hwang, 2001), differential modes of association (Fei, 1992), Yin-Yang thinking (Li, 1998) and dynamic balance among various forces (Chen, 2002) remain relatively unchanged in today’s Chinese society. Circles are thus still an important phenomenon and deserve our attention.

Figure 1: Differential Mode of Association in Guanxi



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