

1
3 THE STRATEGIC MANAGEMENT
5 OF YIN/YANG BALANCE AND
7 ETHICAL LEADERSHIP IN
9 CHINESE ORGANIZATIONS
11

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15

17 ABSTRACT

19 Purpose – *This article aims to construct a scientific microworld to explain*
21 *the management strategy of yang-ru ying-fa (Confucianism in public and*
Legalism in private) in Chinese organizations by an emic approach of
indigenous psychology.

23 Design/Methodology/Approach – *In consideration of the difficulties*
25 *faced by either an imposed etic approach or a derived etic approach, this*
27 *article advocates for an emic approach that argues that, in order to*
29 *understand the specific features of organizational dynamics in China, it is*
necessary for us to construct an objective system of knowledge
(epistemology) on the basis of Chinese cultural values (ontology), which
can be examined by methods of social sciences (methodology).

31 Findings – *Based on the theoretical model of Face and Favor, a*
33 *conceptual scheme was proposed to highlight the contrast between*
Confucianism and Legalism in traditional as well as contemporary

35

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1 *Chinese society. Findings of pervious empirical researches on two types of*
 3 *guanxi, along with two types of official and ethical leadership in Chinese*
organizations were reviewed to demonstrate the usage of yin/yang balance
in strategic management.

5 *Originality/Value – Taking the discourse of this chapter as an example, it*
 7 *is expected that the author's approach may initiate a scientific revolution*
 9 *against the Western paradigms of psychology that had been constructed*
on the presumption of individualism (Evenden & Sandstrom, 2011;
Hwang, 2012).

11 **Keywords:** Scientific microworld; emic/etic approach; indigenous
 13 psychology; Confucianism; Legalism; guanxi; yin/yang

AU :3

15 This article aims to explain the meaning and function of yin/yang balance as
 17 a management strategy for ethical leadership in Chinese organizations from
 19 the perspective of indigenous psychology. Because most organizational
 21 psychologists have adopted the methodology of either imposed etic or
 23 derived approach to study issues related to this topic (Berry, 1989), which is
 25 inadequate for revealing the cultural specific features of strategic manage-
 27 ment in Chinese organizations, this article advocates for an emic approach
 29 of indigenous psychology by considering ontology, epistemology, and
 methodology simultaneously, rather than methodology alone. Based on this
 premise, this article will illuminate the modernization of Chinese organiza-
 tions by distinguishing between scientific world and lifeworld, then propose
 a conceptual scheme to highlight the contrast between Confucianism and
 Legalism in the Chinese cultural tradition, which will be used to explain the
 significance of yin/yang balance in strategic management and ethical
 leadership of Chinese organizations.

31 **METHODOLOGY FOR STUDYING STRATEGIC** 33 **MANAGEMENT IN CHINESE ORGANIZATIONS**

35 Following the conventional linguistic usage of the words *phonetic* and
 37 *phonemic*, Pike (1967) coined the words *etic* and *emic* to denote two different
 39 approaches of studying behavior as from either outside or inside of a
 particular system, respectively. Berry (1989) elaborated them into a
 conceptual framework for classifying the research methodology of cross-
 cultural psychology, namely, *emic*, *imposed etic*, and *derived etic* approach.

1 The common practice in this field is doing *emic* research with concepts or
3 tation and methodology on other cultures by the so-called imposed etic
5 approach. He advocated a *derived etic* approach of three steps: (1) Doing
7 *emic* research in both cultures to discover native principles and to grasp
9 native's point of view through ethnography's methods; (2) deriving common
11 features of these two cultures; (3) comparing behavior of these derived etic
13 aspects.

9 Viewing from this perspective, research methodology for studying
11 strategic management in Chinese organizations can be classified into three
13 categories: imposed etic, derived etic, and emic approach. The imposed etic
15 approach studies Chinese organizational behaviors by implanting Western
17 paradigms of research. For example, studying the social exchanges between
19 leaders and members in Chinese organizations by using either single-
21 dimensional LMX (leader member exchange) scale (e.g., Scandura & Graen,
23 1984) or multidimensional LMX scale (e.g., Liden & Maslyn, 1998)
25 developed in the United States. Though the multidimensional LMX scale
27 developed by Liden and Maslyn (1998) contains four aspects, namely affect,
29 contribution, loyalty, and professional respect, it was constructed on the
31 presumption of individualism without any consideration of Chinese culture.
33 Using it to study Chinese organizational behaviors thus belongs to the
35 imposed etic approach.

23 As a consequence of the rise of the indigenization movement in
25 psychology, more and more social scientists tend to consider culture-specific
27 factors by modifying Western paradigms of research. For example, Law,
29 Wong, Wang, and Wang (2000) argued that the leader member *guanxi*
31 (LMG) in Chinese organizations is different from the LMX in American
33 society, as such, they constructed a LMG scale by taking task-irrelevant
35 social exchanges, such as dinning together and gift-giving, for the
37 operational definition of LMG. Wong, Tinsley, Law, and Mobley (2003)
39 constructed another similar scale using the same approach. This approach
may be termed derived etic approach because it modifies Western theories or
research methods by taking Chinese cultural factors into consideration.

Though the derived etic approach takes Chinese cultural factors into
consideration, it adopts the approach of reductionism in attempting to
simplify Chinese culture into several dimensions concerned by Western
theories. This approach disables us to understand the dynamics of Chinese
organizations. Therefore, indigenous psychologists advocate for an emic
approach that argues that, in order to understand the specific features of
organizational dynamics in China, it is necessary for us to construct an

1 objective system of knowledge (epistemology) on the basis of Chinese
 3 cultural values (ontology), which can be examined by methods of social
 5 sciences (methodology). This approach of indigenous psychology will be
 7 elaborated in the following sections.

7 SCIENTIFIC MICROWORLD AND LIFEWORLD

9 In Chapter 2 of *Foundations of Chinese Psychology: Confucian Social*
 11 *Relations*, Hwang (2012) emphasized that the modernization of non- **AU :5**
 13 Western countries is essentially different from that of Western countries.
 15 The modernization of Western countries emerged within their civilization,
 17 while the modernization of non-Western countries was imported from
 19 outside.

17 *Language Tool and Language Game*

19 For the sake of illustrating the essential difference between the implanted
 21 civilization and cultural tradition of non-Western countries, Hwang (2006,
 23 2011a) elaborated the distinction between scientific microworld and **AU :6**
 25 lifeworld on five aspects, namely, constructor, ways of thinking, types of
 27 rationality, patterns of construction, and functions of worldview. Generally
 29 speaking, scientific microworld is constructed by a single scientist for the
 31 sake of recognizing a particular object in the external world. He tends to use
 33 technical thinking with an attitude of Cartesian dualism. All terms used for **AU :7**
 35 constructing scientific microworld must be clearly defined, so they are
 37 characterized with the feature of *language tool* (Vygotsky, 1978).

29 In contrast, the language used by people in lifeworld has been constructed
 31 by a cultural group for the sake of representing things in their external
 33 world. They tend to use originative thinking with an attitude of partici-
 35 pation in the world. The language constructed for recognizing the external
 37 world is thus not so clearly defined as the scientific language; it was named
 39 as *language game* by Wittgenstein (1945). Because primitive people were not **AU :8**
 35 separated from their external world, some languages they constructed to
 37 represent the outer world have shown a certain extent of similarity in
 39 accordance with the nature of their recognized world, which can be termed
 as family resemblance (Wittgenstein, 1945).

39 The *language game* played by people in their lifeworlds is essentially
 different from the *language tool* used by scientists in constructing scientific

1 microworlds. The classification system of taxonomy must be mutually
 3 exclusive and exhaustive, and all terminologies for constructing scientific
 5 microworld must be clearly defined. The concept of yin/yang balance, as we
 7 will analyze in the next section, is unable to fit such requirements. However,
 9 it is necessary for us to understand the management strategies as well as the
 11 operation of Chinese organizations.

9 *Bipolar Concepts of Ying and Yang*

AU-9

11 Concepts related to Ying and Yang are language games frequently played
 13 by Chinese people in their lifeworlds. The idea of yin/yang balance
 15 originated from *I-Ching*, which is originally a book of divination records
 17 that enables us to see the political, economic, and cultural life in ancient
 19 China. According to the *Biography of Scholars* in the History of Han (*Han*
 21 *Su*), Confucius was fond of reading *I-Ching* in his old age; he wrote 10
 chapters of *I-Zhuan* to interpret *I-Ching* from various aspects, which was
 also called *Ten Wings*. In his works, he proposed a famous proposition and
 tried to explain the fundamental principle for all operations in the universe
 by the hexagram structure that composed of six monograms of either *yin* or
yang.

23 *The successive operations of yin and yang constitute what is called the Dao (way) of things.*
 25 *That which ensues as the result of their operations is goodness; that which shows in its*
 27 *completeness is the nature of men or things. The benevolent see it and call it benevolence;*
the wise see it and call it wisdom. The common people act daily according to it, yet have no
knowledge of it. Thus it is the Dao (way) of things, as seen by the superior man, as seen by
few. (Interpretation in the Book of Changes, "I-Ching")

29 The Confucian interpretation of *I-Ching* transformed it from a book of
 31 record for divination into an important philosophical work, which enabled
 33 him to explain why the Way of Humanity (*rendao*) he advocated is estab-
 35 lished on the Way of Heaven (*tiendao*) he believed in. The worldview that
 human is an integral part of the Nature (Heaven) has profound influence on
 Chinese people. Dao is manifested ever since and everywhere in people's
 daily life, but Dao-in-itself is unobservable and unknowledgeable. What can
 be seen is *yin/yang* and a series of pairs of concept derived from it, such as
 day/night, sun/moon, heaven/earth, bright/dark, soft/hard ... and so on.

37 Because all pair concepts are derivatives of *yin/yang*, *yin/yang* can be
 39 viewed as their "root metaphor," though not "metaphor" in a general sense
 (Chen, 1972). Furthermore, *yin/yang* is neither two contrast concepts of
 dualism nor two clear-cut categories that can be operationally defined. In

1 fact, the element of *yin* is contained in *yang*, while the *yang* element is also
 3 contained in *yin*. When the *yin* effluvium in *yang* gradually becomes
 5 stronger and stronger, *yang* may be changed into *yin*. By the same token,
 7 when the *yang* effluvium in *yin* becomes stronger and stronger, *yin* may be
 9 changed into *yang*, too. The concept of *yin/yang* is obviously neither a
 classical episteme nor a modern episteme as defined by Foucault (1966). It
 cannot be used to construct the scientific microworld (Hwang, 2006, 2011a,
 2011b), but it and its derivatives are frequently used by Chinese in their
 lifeworlds.

11

Formal Rationality and Substantial Rationality

13

15 The modernization of Chinese society is basically a process of rationaliza-
 17 tion. Conceptualizing in the context of scientific microworld vs. lifeworld,
 the modernization of Chinese organizations implies that there are more and
 19 more managers who are able to utilize various kinds of scientific knowledge
 to accomplish their production and management jobs in organizations.
 Nevertheless, as mentioned earlier in this article, the modernization of Asian
 societies is essentially different from that of Western societies. The moder-
 21 nization of Western societies emerged from the heritage of their civilizations,
 while the elements of modernization for Asian societies are imported. The
 23 implication of this proposition can be further elaborated by the famous
 sociologist Max Weber's (1864–1920) theory.

25

In order to illustrate the distinction between scientific microworld and
 lifeworld, Hwang (2006, 2011b) cited Weber's theory of formal rationality
 27 and substantial rationality to explain the different types of rationality used
 by people in constructing knowledge in these two worlds. In *Economy and*
 29 *Society*, Weber (1978) argued that since the emergence of European
 Renaissance, the rise of rationalism had happened in such domains as
 31 science, law, politics, and religion in most European countries. He indicated
 that the particular formal rationality contained in European rationalism is
 33 essentially different from the substantial rationality emphasized in other
 civilizations of the world (Brubaker, 1984). Formal rationality emphasized
 35 the calculability of means and procedures for attaining a particular goal, it
 advocates for value-neutral fact. On the contrary, substantial rationality
 37 means the value of ends or results as defined from a certain perspective. The
 former emphasized means and procedures that can be utilized by any one to
 39 attain his/her own goal, while the latter emphasized ends and results without
 deliberate specification in means or procedures for attaining those ends.

1 Only a few persons who are familiar with such specific means or procedures
may use them to pursue their own goals.

3

5 THE THEORETICAL MODEL OF FACE AND FAVOR

7 Confucian ethics are essentially a kind of substantial rationality. In order to
construct a scientific microworld for studying the influence of Confucian
9 ethics on Chinese social behaviors, it is necessary for us to analyze the
substantial rationality of Confucian ethics by a theoretical framework with
11 formal rationality. In order to attain such a goal, Hwang (2006, 2011a,
2011b) proposed a strategy by following a principle of cultural psychology:
13 “one mind, many mentalities” (Shweder et al., 1998). He first constructed a
universal theoretical model of *Face and Favor* (Hwang, 1987), then used it as
15 a framework to analyze the inner structure of Confucianism (Hwang, 2006,
2011a, 2011b).

17

19

Guanxi and Rules for Exchange

21 The two parties of interaction are defined as “petitioner” and “resource
allocator” in the theoretical model of *Face and Favor* (Hwang, 1987). When
23 the model is applied to the field of organizational psychology, it may deal
with the interaction between a leader and his subordinates. When a
25 petitioner asks the resource allocator to allocate the resource under his/her
control in the petitioner’s favor, the first thing for the resource allocation to
27 consider might be “what is the relationship between us?”

The model of *Face and Favor* classifies the relationship for dyad
29 interaction into three categories, namely, expressive ties, mixed ties, and
instrumental ties. It assumes that the resource allocator tends to interact
31 with the opposite party in terms of the need rule, the *renqing* rule, and the
equity rule, respectively.

33 The expressive ties may contain relatives or friends who have intimate
relationships with the resource allocator. Under the influence of Confucian
35 ethics, the most important expressive ties for Chinese people are that among
family members. The rule for interacting with others within the family is the
37 needs rule, i.e., one is obligated to do one’s best to satisfy the needs of the
other party.

39 The instrumental ties usually denote one’s relationships with strangers.
The most typical instrumental tie is that between two parties negotiating an

1 exchange in the market place, where the equity rule is the only rule of
2 thumb.

3 The mixed ties are usually one's relationships with acquaintances outside
4 of one's family. A certain extent of affective components might exist in this
5 type of relationships, but it is not so reliable that one may express his/her
6 authentic feelings without any hesitation. Because mixed ties may not
7 constitute on the basis of consanguinity, relationships of this category must
8 be reinforced by the reciprocal *renqing* rule. When one receives a favor from
9 the other party, he/she has to reciprocate it in an adequate fashion in order
10 to maintain a long-term relationship between them.

11

13 CONFUCIANISM AND LEGALISM IN CHINESE 14 CULTURAL TRADITION

15

16 Weber (1978) argued that the behavior of economic exchange in the market
17 place is the prototype of all rational social action, which is also the
18 foundation of capitalistic economic order. Both parties involved in the
19 economic exchange will consider their desired goods for exchange, and
20 calculate them in such a way as to maximize one's own benefits. Prohibitions
21 of holiness, privileges for particular groups, and obligations for seniors or
22 elders, are all excluded from consideration. Pursuing the substantial interest
23 of subjective rationality by the deliberate calculation of objective rationality,
24 the action of exchange with such a dual rationality is called "the economic
25 act of formal rationality." On the contrary, if the goal of an exchange is not
26 characterized with such a feature, but is directed toward attaining goals of a
27 particular group, meeting interests of that group, or maintaining values
28 advocated by that group, it is called "the economic act of substantial
29 rationality."

31

The Struggle Between Confucianism and Legalism

33

34 Conceptualizing in the context of *Face and Favor model* (Hwang, 1987), only
35 one's interaction with other party of instrumental ties in terms of equity rule
36 can be called "the economic act of formal rationality" in Weber's (1978)
37 theory of modernization. Under the influence of Confucian cultural
38 tradition, both interacting with family members of expressive ties in terms
39 of the need rule and interacting with acquaintances of mixed ties in terms of
the *renqing* rule are all social actions of substantial rationality. Nevertheless,

1 this fact does not imply that the importance of formal rationality had been
2 ignored in traditional Chinese culture. In an article titled *Leadership theory*
3 *of Legalism and its function in Confucian society*, Hwang (2008) indicated
4 that the formal rationality had been deliberately examined by the cultural
5 tradition of Legalism, but not Daoism.

6 In contrast to Confucianism, Legalism is essentially an organizational
7 theory formulated in the authoritarian culture of Ancient China. It has been
8 used by many rulers in Chinese history to consolidate their power while
9 China was in a period of order and prosperity, and the emperor's power was
10 strong and stable. But when Chinese society fell into turmoil and
11 disturbance, struggle between Confucianism and Legalism frequently
12 appeared.

13 Legalist ways of organization are akin to Western ideas of bureaucracy
14 that became widespread after the rise of capitalism. The cultural traditions
15 of Confucianism emphasizing the values of benevolence and affection
16 (*qing*) are constantly in tension with that of Legalism, which might result
17 in dialectical dispute over political, social, or cultural issues between
18 centripetal and centrifugal elites in the societal center (Eisenstadt, 1966).
19 This constitutes the so-called struggle between Confucianism and Legalism
20 in Chinese history; decision-makers in power are frequently urged to
21 choose between the *renqing* rule and the equity rule. Even in contemporary
22 Chinese society, the struggle between these two value systems is frequent,
23 which may have direct or indirect influence on the operation of a firm or a
24 state.

25

26

A Conceptual Scheme

27
28
29 In order to elucidate the essential nature of the struggle between
30 Confucianism and Legalism, Hwang (1995) proposed a conceptual scheme
31 to compare five crucial aspects of these two schools of thought: value
32 orientations, norms for regulating social behavior, rules for distributing
33 resources, input factors determining the distribution of resources, and the
34 authority who makes decisions (Table 1). Confucianism advocates a kind of
35 status ethics. It has different expectations for scholars and ordinary people.
36 For ordinary people, it is enough to practice the *ren-yi-li* ethical system
37 within the domain of one's family and acquaintance. The guiding principle
38 for their social interactions is familism, the social norm for regulating social
39 behavior is *li* (politeness), and the decision-maker who holds the power of
distributing resources within the family is the paterfamilias. When allocating

1 **Table 1.** A Comparison Between Five Major Aspects of Confucianism
 3 and Legalism.

	Confucianism		Legalism
	Ethics for Ordinary People	Ethics for Scholars	
7 1. Value orientation	Familism	Collectivism	Individualism and collectivism
9 2. Social norm	Particular <i>li</i> (courtesy)	Universal <i>ren</i> (Benevolence)	Universal law (<i>fa</i>)
11 3. Distributive rule	Need rule	Equality rule	Equity rule
4. Criteria for distribution	Blood relationship	Membership	Contribution
13 5. Decision-maker	Paterfamilias	Elite (scholar-official)	Ruler

15 *Source:* Adapted from Hwang (1995, p. 26).

17 resources to others, the first thing to consider is the blood relation with the
 19 recipient. Resources are frequently allocated according to the need rule.

21 Confucianism sets a completely different expectation for scholars. It
 23 expects scholars to benefit the world with *Dao*, and requires them to extend
 25 the domain for practicing *rendao* from the individual and family level to the
 27 greater society; the bigger one's domain for practicing *rendao*, the greater
 29 the moral achievement. While the ideal goal of Confucianism is to attain a
 31 peaceful, harmonious world, what a scholar can really do is to actualize
rendao in a community or social organization larger than the family. In this
 sense, the value orientation of scholarly social behavior can be termed
 collectivism. According to the Confucian ethics for scholars, the norm for
 social acts in such a collectivity should be *ren*, all important resources of the
 group should be allocated according to the equality rule by morally
 educated scholars, and every member of the group is entitled to an equal
 share.

33 As stated in the previous section, when a Legalist leader is assessing how
 35 to allocate rewards and punishments to subordinates, contributions to the
 37 accomplishment of organizational goals, rather than blood relationships or
 39 group memberships, should be considered. Therefore, the guiding rule for
 their social acts comprises both individualism and collectivism. By
 recognizing the legitimacy of individual interests and by advocating the
 universality of legal applications, Legalists are individualists. However,
 Legalists are collectivistic in the sense that they give priority to

1 organizational and national goals rather than to familism and factionism. A
2 delicate combination of both Confucian and Legalist traditions had been
3 created and maintained in the feudalistic society of Imperial China for
4 hundreds of years.

7 **CONFUCIANISM AND LEGALISM IN** 8 **CONTEMPORARY CHINESE SOCIETY**

9
10
11 As mentioned previously, the modernization of Western countries emerged
12 from their own civilizations. But, for most of the non-Western countries
13 including China, the elements of modernization are implanted from outside
14 of their culture. According to Western concepts of political science, rule of
15 law means the law to be executed by either an administrative institution or
16 judicial institution and must be approved by a legislative body, while
17 members of the legislative body should be elected to represent the people.
18 The relationship between the ruler and those being ruled is basically a
19 contractual one; all practices conducted on people by the ruler must be
20 approved by the majority of those being ruled. This is essentially different
21 from the Legalist idea of rule by law.

22 *The Modern Struggle Between Confucianism and Legalism*

23
24
25 Since Deng Xiaoping decided to follow the route of open and reformation in
26 1979, China has maintained a political system with Communists holding the
27 reins of the government, but both of its structure and function had gone
28 through dramatic changes. The government has assumed economic
29 development to be its top priority, it advocates for the establishment of a
30 harmonious society and not communism any more. The function of the
31 government has also changed from an organization for production to
32 serving as a mediator or judge for the competition among various interest
33 groups in the market.

34
35 In the early period of economic reform, almost all resources of the
36 country were controlled by the state with a gigantic government organiza-
37 tion, and the country was poor. When Chinese communists decided to adopt
38 the policy of “allowing some people to become rich first,” the consequence
39 was similar to the transformations that followed in the former Soviet Union
or East European countries, namely two groups of people had become rich.
The first was government officials who controlled the public resources and

1 transformed them into their personal wealth. The second one was
2 adventurous businessmen who decided to leave the old system and pursuit
3 personal wealth with their own efforts and wisdom. Because there were
4 many “holes” in government regulations (Bian, 2002), many of them have
5 taken advantage of the “gray area” to become rich. Contrary to these
6 phenomena, the general public may request the government to “remedy the
7 holes” by reforming the regulation system. These two opposing forces may
8 also create tensions in the administrative sector and urge the government to
9 take actions to reform the law. Thus, the government has yielded more
10 power to the society, and the modernization of China can be conceptualized
11 as a dynamic process of struggle between two opposing forces representing
12 Confucian and Legalist cultural heritages, respectively.
13

14 *Two Types of Guanxi*

15
16
17 In an attempt to tease out *guanxi* practices ingrained in the cultural tradition
18 and those adapted to the immature institutions, Su and Littlefield (2001)
19 proposed two types of *guanxi* practices, namely “*qinyou guanxi*” (personal
20 favor exchanges among family and friends) and “*quanli guanxi*” (exchanges
21 between those in power and interest groups). They attributed the former to
22 the influence of traditional Chinese culture and the latter to that of
23 contemporary institutions, mainly that of the socialist market economy.
24 They held the former as legitimate means of favor-seeking for common
25 people in navigating through work and life, but the latter as corruptive and
26 rent-seeking by social elites of the powerful and wealthy.

27 The so-called favor-seeking *guanxi* means that an individual interacts with
28 the other party of a mixed tie in terms of the *renqing* rule. Viewing from the
29 theoretical framework as presented in Table 1, there exist systems of
30 regulation in any institution. Caused by a variety of reasons, the systems of
31 regulation may have some flaws, which are called *institutional holes* by
32 Chinese people. In this case, a petitioner may seek for *guanxi* with the
33 resource allocator who has the decision-making power within the institu-
34 tion, interact with him/her in accordance with the *renqing* rule, and
35 transform their relationship into the so-called rent-seeking *guanxi*. As an
36 alternative definition of economic rent, here rent refers to the returns over
37 and above the costs of employing a monopolistic resource by manipulating
38 government policy (Buchanan, 1980; Su & Littlefield, 2001). Meanwhile,
39 rent-seeking is synonymous with corruption in imperfect market conditions

1 in which a decision-maker has the power to allocate a resource at a price
2 below the market equilibrium level (Tullock, 1996).

3

5

Two Types of Officials

7 In the political structure of contemporary China, promotion of officials in
8 the government is determined by a system of performance evaluation of
9 cadres in the communist party. Since the early 1980s, Deng Xiaoping's
10 government had evaluated the qualification for promotion of low-rank
11 officials in accordance with four criteria: revolutionary zest, knowledge,
12 professional training, and youthfulness. Among these four, youthfulness is
13 the most objective and has become the iron rule of promotion for
14 government officials. For the sake of selecting young cadres, the central
15 government has abolished all lifetime positions and established the age
16 criteria for retirement as well as for candidacy of key government positions.

17 Indeed, the "hard" criteria of age have profound influence on the career
18 planning of Chinese government officials. One of its unintended con-
19 sequences is the resulted differentiation of government officials into two
20 types: The promotable officials are those who are expected to be promoted
21 to higher positions; the terminal officials are those who are restricted for
22 further promotions by age criteria, although they are still too young to retire
23 (Zhong, 2003).

25

Rank-Seeking vs. Rent-Seeking

27

28 Long-term expectations shape different career goals for these two types of
29 officials: Most promotable officials tend to set rank promotion as their
30 primary goals. In order to be promoted along the hierarchy of bureaucracy,
31 they must do their best to meet the performance criteria for official
32 evaluations established by the government. Now the central government has
33 adopted a governance model of horizontal competition for promotion to
34 evaluate the performance of local officials, especially those who are at the
35 top of the local governments. They can be promoted to higher positions only
36 if their performances have proved superior to those of the same level.

37 Such a mechanism has offered the promotable officials a strong
38 motivation for performance achievements. They must try all their means
39 to compete with colleagues of the same rank on various crucial performance

1 indicators. Consequently, local governments in China have manifested rapid
economic development as the key characteristic of strong governance.

3 In contrast to the promotable officials, the terminal officials are usually
assigned to peripheral positions before the end of their career. Due to their
5 disappointment with their own status and their anxiousness about personal
income after retirement, some terminal officials thus turn to seeking rents by
7 all means (Lu, 1999). They understand that their power will end after
retirement, so they tend to utilize their power in seeking personal interests
9 (Ngo, 2008).

11
13 *The Duality of Governance in Contemporary China*

15 The rent-seeking behaviors of government officials promote not only
common practices of corruption in the officialdom but also the widespread
17 tendency of political dependency among private businesses in China. When
business owners find that they are unable to protect their personal interests
by appealing to the legal system, they have to build personal connections
19 and establish patron–client relationships with the officials (Kennedy, 2002,
2005a). Sometimes vertical relationships between private businesses and the
21 government are more important than horizontal relationships of business
cooperations. Therefore, some Western political science scholars argued
23 that the exploitive rent-seeking government is the most significant hindrance
for economic development in China (Kennedy, 2002, 2005b).

25 Rent-seeking and development pursuits constitute the duality of govern-
ance at various levels of the Chinese government. On one hand, there exists
27 rank-seeking officials who are doing everything they can to improve their
personal performance as well as finance; on the other hand, there are rent-
29 seeking officials who are utilizing every means to enhance their personal
income. Therefore, governments of various levels are characterized by
31 strong governance, emphasizing rules of the formal legal system and rent-
seeking behaviors that are outside of the legal system (Zhang, 2008). The
33 dual structure of the political system urges private sector businesses to meet
government requirements in public, while establishing particular personal
35 connections with government officials in private.

37 Given the dramatic changes in the past 30 years, government officials in
contemporary China are neither “cadres for revolution” nor “modern
bureaucrats” who act in accordance with the rules of government
39 regulation. Their decision-making model in daily management is very
similar to that of a business manager.

THE STRATEGIC MANAGEMENT OF YIN/YANG BALANCE

The concept of *yin/yang* balance is often emphasized by managers of Chinese organizations in making decisions. An organization leader should take into consideration all positive and negative forces (*yin* and *yang* elements) regarding a particular event in the objective environment, work out a proposal for action with temporal and spatial integration (Fung, 1970; Graham, 1989) for the sake of maintaining his/her own psychosocial homeostasis (Hsu, 1971; Hwang, 2006), rather than cognitive consistency that has been emphasized by Western psychologists (e.g., Festinger, 1957). Such a management decision-making model is the so-called *zhong-yong* rationality (Cheung et al., 2003) that aims to integrate all opposing forces in a harmonious manner (Chen, 2002). It requires delicate psychological efforts to attain the state of incorporating diversity-in-unity (Li, 1998, 2007), but not a tendency of conflict avoidance for Chinese people, as assumed by many psychologists.

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ETHICAL LEADERSHIP

Considering the concept of *yin/yang* balance in the context of *guanxi*, there is a famous Chinese saying: *yang-ru yin-fa* (Confucianism in public and Legalism in private). It means that a leader should deal with intra- or interorganizational issues in consideration of Confucian values with the supplement of the Legalist system of regulation.

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Complements Between Confucianism and Legalism

In other words, because rent-seeking *guanxi* may bring benefits to individuals as well as the organizations they represent, these benefits are obtained at the expenses of other individuals or firms and thus detrimental to the society (Fan, 2002), a counterforce may emerge to battle it from within the society. The efforts of developing business ethics by implementing new rules of regulation against the background of Chinese cultural and ideological heritage can be conceptualized as a struggle between Confucianism and Legalism in consideration of the Chinese historical context, but it is more adequate to view them as complements between two opposing forces as conceived in Table 1. It requires an effort to improve the favor-seeking

1 *guanxi* among stakeholders using Confucian wisdom for action, to suppress
the rent-seeking *guanxi* by the Legalist management technique, so as to
3 assume corporate social responsibility. This approach might be called the
“*balanced concept of the firm*” (Enderle, 2001), which is different from other
5 approaches to corporate ethics in chiefly Western literature, such as
discussions on “*corporate social responsibility*,” *the stakeholder approach*,
7 and *social contract theories*.

It should be noted here that, as a vertical society emphasizing mutual
9 obligations between the superior and the subordinate, Chinese society is
fundamentally different from Western society of individualism, advocating
11 for one’s interactions with the social system. Viewing from the conceptual
scheme of Table 1, the most important task for an organizational leader is to
13 ask his/her subordinates for suggestions to deal with various challenges,
making decisions by setting clear-cut organizational goals, fully commu-
15 nicating with followers and encouraging them to strive for the attainment of
their goals.

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Cooperative Goals for the Greater Self

21 A series of research conducted by Tjosvold and his colleagues can be used
to illustrate my arguments. Wong, Tjosvold, and Lee (1992) interviewed 40
23 Chinese immigrants working in North American (Canadian) organizations
and explored their responses to cooperative (rather than competitive or
25 independent) goals. They found that those who developed cooperative goals
in a conflict were able to discuss issues open-mindedly. The constructive
27 interaction helped them make progress on the task, work efficiently, and
strengthen their work relationship and confidence in the future.

29 In order to understand how cultural values and other preconditions impact
the cooperative and competitive management of conflict, Tjosvold and Sun
31 (2001) asked 80 Chinese undergraduates to participate in an experiment to
study the effect of communication (persuasive or coercive) and social context
33 (cooperative or competitive) on several dependent measures of conflicts. Two
participants and two confederates were involved in discussion about work
35 distribution at each session. Results showed that persuasion communicated
respect and helped the development of a cooperative relationship. In contrast,
37 coercion communicated disrespect and helped to develop competitive
relationships, resulting in rejection of the opposing view and negotiation.

39 Tjosvold and his colleagues (Chen & Tjosvold, 2007; Chen, Tjosvold, &
Fang, 2005) further interviewed Chinese employees from various industries

1 in Shanghai on specific incidents where they had a conflict with their
3 Japanese or American manager. Results of their research showed that a
5 cooperative approach of conflict management, rather than a competitive or
7 independent approach, helped Chinese employees and their foreign
9 managers develop quality relationships, improve their productivity (Chen
11 et al., 2005), strengthen trust and commitment (Chen & Tjosvold, 2007), and
13 promote team effectiveness (Tjosvold, Poon, & Yu, 2005). Thus, they
15 concluded that cooperative conflict management may be an important way
17 to overcome obstacles and develop effective leader relationships within and
19 across cultural boundaries.

Open Communication

15 They also noted the importance of social face (Tjosvold, Hui, & Sun,
17 2004) and nonverbal communication of warmth (Tjosvold & Sun, 2003)
19 in the process of Chinese conflict resolution. Understanding that social
21 face has been used to explain the proclivity of Chinese to smooth over
23 conflict, findings of their experiment and field interview showed that
25 communication of warmth as well as confirmation of face may induce
27 open-mindedness and redirect controversy as participants asked more
29 questions and explored the opposing views. Moreover, though Western
31 theory has assumed that avoidance is a largely ineffective approach, their
33 empirical research indicated that Chinese managers and employees relied
35 upon the other person, promoted task productivity, and strengthened the
37 relationship with whom they shared a prior strong relationship and
39 cooperative goals (Tjosvold & Sun, 2002). Therefore, they argued that
avoiding conflict can be useful and even reaffirm an already effective
relationship if it is managed constructively with such technique as
cooperative goals.

31 Findings of Tjosvold's research team can be interpreted in terms of the
33 current theoretical framework, which conceptualizes intragroup harmony as
35 a more important factor than the opposite party's opinion or needs for
37 choosing an appropriate model of conflict resolution. As long as the realistic
39 intragroup harmony is maintained within a cooperative context, Chinese
people tend to value democratic leadership emphasizing horizontal relation-
ships and to use open discussions productively (Tjosvold, Hui, & Law, 2001;
Tjosvold, Leung, & Johnson, 2006).

39 In sum, a Chinese organization leader cultivates oneself with a Daoist
mind of emptiness and calmness that enables him to have a "wateristic"

1 character to remain in low position for empowering followers. He should be
2 able to define clear-cut goals for their “greater self” (*da wo*) with a careful
3 consideration of their extended situation, then utilize all means of
4 Confucian social skills to moderate his subordinates to attain their
5 organizational goals. Finally, he must be able to reward or punish
6 performances of his subordinates in accordance with the Legalist system of
7 regulation. This is called either ethical leadership (Wu, 2004) or moral
8 leadership (Cheng, Chou, Wu, Huang, & Farh, 2004; Farh, Liang, Chou, &
9 Cheng, 2008) in the context of the Confucian cultural tradition.

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THE RESEARCH METHODOLOGY OF INDIGENOUS PSYCHOLOGY

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In their attempt to explain the prevalence of the *guanxi* phenomena in Chinese society, the institutional perspective camp argues that the prevalence of *guanxi* practices primarily resulted from the imperfection of legal and regulatory institutions in China (Guthrie, 1998, 2002; Xin & Pearce, 1996). With the progress of economic reform and the establishment of market institutions, reliance on *guanxi*, especially its aspects of corruption, will gradually decline and become minor.

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The Institutional Perspective

In the context of this article, the institutional camp is mainly concerned with rent-seeking *guanxi*, rather than favor-seeking *guanxi*. For example, Yi and Ellis's (2000) research showed that both mainland Chinese and Hong Kong executives agree on the general benefits of *guanxi*, but these two groups disagree sharply on the disadvantages of *guanxi*, with Hong Kong executives viewing *guanxi* use as more costly, time consuming, and more likely to be perceived as being corrupt. Tan, Yang, and Veliyath (2009) conducted case studies on small and medium enterprises in two cities of two western provinces in China. It revealed that personal *guanxi* practices as well as associated personal trust targeted at government and business became less critical as China transformed from central planned to a market economy. Su, Yang, Zhuang, Zhou, and Dou (2009) also found that the interfirm communications between boundary spanners are affected by ties with business partners but not by ties with the government, suggesting that firms may have relied on direct personal communications to solve between-

1 firm business disagreements and conflicts rather than through the mediation
of the government.

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The Cultural Perspective

7 Those researches are obviously concerned with the regulation of rent-
seeking *guanxi* by the perfection of institutions. In contrast with this
9 perspective, the other camp of the debate argues that *guanxi* is deeply rooted
in Chinese culture. It has been formed and reinforced over 2,000 years in the
11 Chinese cultural tradition. According to the cultural perspective, the *guanxi*
phenomenon is by no means transitory. Boisot and Child (1996) argued that
13 the Chinese cultural tradition would shape their economic reform to a
direction of clan-like network capitalism, where the *guanxi* might become
15 the label of Chinese economy because *guanxi* is “the major informal,
unofficial institution in the Chinese speaking world as a whole” (Parnell,
17 2005). Wank (2002) also believed that some aspects of *guanxi* might be
declining as China develops its capitalism, but *guanxi* would adapt to
19 market economy and find new circumstances to flourish.

The cultural perspective is also supported by a series of empirical
21 evidences. Based on his field studies on entrepreneurs from private companies
in Xiamen, China, Wank (1999) found *guanxi* is still playing a significant role
23 in economic activities after China’s reforms. Similarly, based on his in-depth
interviews with 26 senior managers from Western banks who had experience
25 and knowledge in the corporate governance reform of Chinese banks, Nolan
(2010) concluded on the persistence of the *guanxi* culture in the external and
27 internal environment of the Chinese banking industry that may thwart the
recent reforms. Chen, Li, and Liang (2011) found, even though the economic
29 benefits are not present for domestic private firms to establish political *guanxi*
ties with the government, the number of business owners who built such
31 connections actually increased significantly over the past 20 years. Studies on
other Asian market economies such as Singapore and Taiwan also show that
33 personal *guanxi* remains critical in business and employment relations
(Bian & Ang, 1997; Hsing, 1998).

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The Research Approach of Indigenous Psychology

39 Researches of the cultural perspective are dealing with both rent-seeking
guanxi as well as favor-seeking *guanxi*. Therefore, theoretical analysis at the
epistemological level should be the first step of an appropriate indigenous

1 approach for studying issues related to strategic management and leadership
 2 in Chinese organizations. Then adequate instruments of research should be
 3 designed accordingly to the methodological level before conducting
 4 empirical researches for hypothesis-testing. For instance, Law et al. (2000)
 5 compared the effects of LMG (see the first section of this article) and LMX
 6 and found that after controlling for effects of each other, LMX was related
 7 to all four outcome variables although the effect on performance rating was
 8 only marginally significant. On the other hand, LMG was positively related
 9 to the subordinate's probability of receiving bonus allocation and
 10 promotion, but not to performance rating or task assignment.

11 The most remarkable finding of this research is that the effect of LMX on
 12 job assignment, promotability, and bonus allocation were all mediated by
 13 performance rating, whereas the effects of LMG were not. To the extent
 14 that performance rating reflects actual performance, this research suggests
 15 that the narrow definition of LMG captures the aspect of Chinese
 16 supervisor-subordinate relationship that is more likely affected by
 17 favoritism than by performance-related merit.

18 Results of this research can be explained in terms of the conceptual
 19 framework indicated in this article to show both positive (*yang*) and
 20 negative (*yin*) sides of a lenient ethical leadership and strategic management
 21 in Chinese organizations.

23 24 25 CONCLUSION

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27 As I indicated in the second section, the bipolar concept of *ying* and *yang*
 28 has been used to denote a variety of events. Concepts related to yin/yang
 29 balance are language games frequently used by Chinese people in their
 30 lifeworlds. They are not language tools for social scientists to construct
 31 scientific microworld. But, they are very important for us to understand the
 32 Chinese management.

33 Viewing from the perspective of organizational management, Li (2008)
 34 indicated that the Chinese duality lens of *yin/yang* contains three tenets:

- 35 a. *The holistic tenet*: Each eye embedded in the opposite element as well as
 36 the two opposite elements to constitute the entity illustrate the holistic
 37 tenet that an entity's *completeness* has to be accommodated by its
 38 *inconsistency*, both in relative terms.
- 39 b. *The dynamic tenet*: The developmental flow from a marginal force to a
 dominant force and then merging into its opposite element illustrates the

1 dynamic tenet that each element is in a constant change in tandem with
 3 its opposite force that both *strengthens* itself and *weakens* itself, both in
 relative terms.

5 c. *The dialectical tenet*: The composition of two opposite elements (i.e.,
 7 white and black) in each entity illustrates the dialectical tenet that two
 opposites holistically and dynamically balance each other by both
 9 mutually *negating* and mutually *affirming* each other to varying degrees
 in different aspects at different times, both in relative terms.

11 As I discussed before, the lens of *yin/yang* originated from Chinese
 ancient cosmology that has been used by Chinese people to recognize the
 13 world. Therefore, these three tenets can be applied to any event that
 happened in one's daily life. In this chapter, we restrict our discussion to the
 15 topic of strategic management and ethical leadership, and take it as an
 example of my advocacy for doing research of indigenous psychology. Such
 17 a research methodology of theoretical construction and empirical research
 has been used to study psychological events in other domains, including
 19 moral reasoning and moral judgment, face dynamism, social exchange,
 achievement motivation, conflict resolution, etc. (Hwang, 2012). It is
 21 expected that this approach may initiate a scientific revolution against the
 Western paradigms of psychology that had been constructed on the
 presumption of individualism (Evenden & Sandstrom, 2011; Hwang, 2011).

23

25 UNCITED REFERENCE

27 Li & Zhou (2005)

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AU:10	Please provide details of “Chen, 2002” so that it can be included in the reference list.	
AU:11	Please note that although in the sentence “Considering the concept of yin/yang ...”, the expression “ <i>yang-ru yin-fa</i> ” has been used, in the Abstract (under	

	<p>Purpose) the same expression is written as “<i>yang-ru ying-fa</i>”. Please check and advise which spelling is correct.</p>	
AU:12	<p>Please check change of “see section I of this article” to “see the first section of this article” as the sections are not numbered. The same has been done where “Section II” was cross-referred. Also, please suggest if “article” should be changed to “chapter” in this case.</p>	
AU:13	<p>Please provide text citation of reference “Li & Zhou (2005)”</p>	
AU:14	<p>Please provide all authors’ names in “Cheung, 2003” as per style.</p>	
AU:15	<p>Please provide publisher’s location in “Kennedy, 2005b; Hwang, 2008”</p>	
AU:16	<p>Please update “Li (2008)”</p>	
AU:17	<p>Please provide initials of translators “Knox” and “Carol” in “Vygotsky (1978).”</p>	