THE STRATEGIC MANAGEMENT OF YIN/YANG BALANCE AND ETHICAL LEADERSHIP IN CHINESE ORGANIZATIONS

Kwang-Kuo Hwang

ABSTRACT

Purpose – This article aims to construct a scientific microworld to explain 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.

Design/Methodology/Approach – In consideration of the difficulties faced by either an imposed etic approach or a derived etic approach, this article advocates 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 objective system of knowledge (epistemology) on the basis of Chinese cultural values (ontology), which can be examined by methods of social sciences (methodology).

Findings – Based on the theoretical model of Face and Favor, a conceptual scheme was proposed to highlight the contrast between Confucianism and Legalism in traditional as well as contemporary
Chinese society. Findings of pervious empirical researches on two types of 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.

Originality/Value – Taking the discourse of this chapter as an example, it is expected that the author’s 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, 2012).

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

This article aims to explain the meaning and function of yin/yang balance as a management strategy for ethical leadership in Chinese organizations from the perspective of indigenous psychology. Because most organizational psychologists have adopted the methodology of either imposed etic or derived approach to study issues related to this topic (Berry, 1989), which is inadequate for revealing the cultural specific features of strategic management in Chinese organizations, this article advocates for an emic approach 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 organizations 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.

METHODOLOGY FOR STUDYING STRATEGIC MANAGEMENT IN CHINESE ORGANIZATIONS

Following the conventional linguistic usage of the words phonetic and phonemic, Pike (1967) coined the words etic and emic to denote two different 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.
The common practice in this field is doing *emic* research with concepts or instruments in one's own culture, and imposing the identical conceptualization and methodology on other cultures by the so-called imposed etic approach. He advocated a *derived etic* approach of three steps: (1) Doing *emic* research in both cultures to discover native principles and to grasp native's point of view through ethnography's methods; (2) deriving common features of these two cultures; (3) comparing behavior of these derived etic aspects.

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

As a consequence of the rise of the indigenization movement in psychology, more and more social scientists tend to consider culture-specific factors by modifying Western paradigms of research. For example, Law, Wong, Wang, and Wang (2000) argued that the leader member *guanxi* (LMG) in Chinese organizations is different from the LMX in American society, as such, they constructed a LMG scale by taking task-irrelevant social exchanges, such as dinning together and gift-giving, for the operational definition of LMG. Wong, Tinsley, Law, and Mobley (2003) 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
objective system of knowledge (epistemology) on the basis of Chinese cultural values (ontology), which can be examined by methods of social sciences (methodology). This approach of indigenous psychology will be elaborated in the following sections.

SCIENTIFIC MICROWORLD AND LIFEWORLD

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

Language Tool and Language Game

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

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

The *language game* played by people in their lifeworlds is essentially different from the *language tool* used by scientists in constructing scientific
microworlds. The classification system of taxonomy must be mutually exclusive and exhaustive, and all terminologies for constructing scientific microworld must be clearly defined. The concept of yin/yang balance, as we will analyze in the next section, is unable to fit such requirements. However, it is necessary for us to understand the management strategies as well as the operation of Chinese organizations.

Bipolar Concepts of Ying and Yang

Concepts related to Ying and Yang are language games frequently played by Chinese people in their lifeworlds. The idea of yin/yang balance originated from *I-Ching*, which is originally a book of divination records that enables us to see the political, economic, and cultural life in ancient China. According to the *Biography of Scholars* in the History of Han (*Han 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*.

> The successive operations of yin and yang constitute what is called the Dao (way) of things. That which ensues as the result of their operations is goodness; that which shows in its 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”*)

The Confucian interpretation of *I-Ching* transformed it from a book of record for divination into an important philosophical work, which enabled him to explain why the Way of Humanity (*rendao*) he advocated is established 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.

Because all pair concepts are derivatives of *yin/yang*, *yin/yang* can be 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
fact, the element of *yin* is contained in *yang*, while the *yang* element is also contained in *yin*. When the *yin* effluvium in *yang* gradually becomes stronger and stronger, *yang* may be changed into *yin*. By the same token, when the *yang* effluvium in *yin* becomes stronger and stronger, *yin* may be 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.

**Formal Rationality and Substantial Rationality**

The modernization of Chinese society is basically a process of rationalization. Conceptualizing in the context of scientific microworld vs. lifeworld, the modernization of Chinese organizations implies that there are more and 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 modernization of Western societies emerged from the heritage of their civilizations, while the elements of modernization for Asian societies are imported. The implication of this proposition can be further elaborated by the famous sociologist Max Weber’s (1864–1920) theory.

In order to illustrate the distinction between scientific microworld and lifeworld, Hwang (2006, 2011b) cited Weber’s theory of formal rationality and substantial rationality to explain the different types of rationality used by people in constructing knowledge in these two worlds. In *Economy and Society*, Weber (1978) argued that since the emergence of European Renaissance, the rise of rationalism had happened in such domains as science, law, politics, and religion in most European countries. He indicated that the particular formal rationality contained in European rationalism is essentially different from the substantial rationality emphasized in other civilizations of the world (Brubarker, 1984). Formal rationality emphasized the calculability of means and procedures for attaining a particular goal, it advocates for value-neutral fact. On the contrary, substantial rationality 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 attain his/her own goal, while the latter emphasized ends and results without deliberate specification in means or procedures for attaining those ends.
Only a few persons who are familiar with such specific means or procedures may use them to pursue their own goals.

**THEORETICAL MODEL OF FACE AND FAVOR**

Confucian ethics are essentially a kind of substantial rationality. In order to construct a scientific microworld for studying the influence of Confucian ethics on Chinese social behaviors, it is necessary for us to analyze the substantial rationality of Confucian ethics by a theoretical framework with formal rationality. In order to attain such a goal, Hwang (2006, 2011a, 2011b) proposed a strategy by following a principle of cultural psychology: “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 a framework to analyze the inner structure of Confucianism (Hwang, 2006, 2011a, 2011b).

**Guanxi and Rules for Exchange**

The two parties of interaction are defined as “petitioner” and “resource allocator” in the theoretical model of *Face and Favor* (Hwang, 1987). When the model is applied to the field of organizational psychology, it may deal with the interaction between a leader and his subordinates. When a 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 consider might be “what is the relationship between us?”

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

The expressive ties may contain relatives or friends who have intimate relationships with the resource allocator. Under the influence of Confucian 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 needs rule, i.e., one is obligated to do one’s best to satisfy the needs of the other party.

The instrumental ties usually denote one’s relationships with strangers. The most typical instrumental tie is that between two parties negotiating an
exchange in the market place, where the equity rule is the only rule of thumb.

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

CONFUCIANISM AND LEGALISM IN CHINESE CULTURAL TRADITION

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

The Struggle Between Confucianism and Legalism

Conceptualizing in the context of Face and Favor model (Hwang, 1987), only one’s interaction with other party of instrumental ties in terms of equity rule can be called “the economic act of formal rationality” in Weber’s (1978) theory of modernization. Under the influence of Confucian cultural tradition, both interacting with family members of expressive ties in terms 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,
this fact does not imply that the importance of formal rationality had been ignored in traditional Chinese culture. In an article titled *Leadership theory of Legalism and its function in Confucian society*, Hwang (2008) indicated that the formal rationality had been deliberately examined by the cultural tradition of Legalism, but not Daoism.

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

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

### A Conceptual Scheme

In order to elucidate the essential nature of the struggle between Confucianism and Legalism, Hwang (1995) proposed a conceptual scheme to compare five crucial aspects of these two schools of thought: value orientations, norms for regulating social behavior, rules for distributing resources, input factors determining the distribution of resources, and the authority who makes decisions (Table 1). Confucianism advocates a kind of status ethics. It has different expectations for scholars and ordinary people. For ordinary people, it is enough to practice the *ren-yi-li* ethical system within the domain of one’s family and acquaintance. The guiding principle for their social interactions is familism, the social norm for regulating social behavior is *li* (politeness), and the decision-maker who holds the power of distributing resources within the family is the paterfamilias. When allocating
resources to others, the first thing to consider is the blood relation with the recipient. Resources are frequently allocated according to the need rule. Confucianism sets a completely different expectation for scholars. It expects scholars to benefit the world with *Dao*, and requires them to extend the domain for practicing *rendao* from the individual and family level to the greater society; the bigger one’s domain for practicing *rendao*, the greater the moral achievement. While the ideal goal of Confucianism is to attain a 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.

As stated in the previous section, when a Legalist leader is assessing how to allocate rewards and punishments to subordinates, contributions to the accomplishment of organizational goals, rather than blood relationships or 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

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

<table>
<thead>
<tr>
<th></th>
<th>Confucianism</th>
<th>Legalism</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Value orientation</strong></td>
<td>Familism</td>
<td>Collectivism</td>
</tr>
<tr>
<td><strong>2. Social norm</strong></td>
<td>Particular <em>li</em> (courtesy)</td>
<td>Universal <em>ren</em> (Benevolence)</td>
</tr>
<tr>
<td><strong>3. Distributive rule</strong></td>
<td>Need rule</td>
<td>Equality rule</td>
</tr>
<tr>
<td><strong>4. Criteria for distribution</strong></td>
<td>Blood relationship</td>
<td>Membership</td>
</tr>
<tr>
<td><strong>5. Decision-maker</strong></td>
<td>Paterfamilias</td>
<td>Elite (scholar-official)</td>
</tr>
</tbody>
</table>

**Source:** Adapted from Hwang (1995, p. 26).
organizational and national goals rather than to familism and factionism. A delicate combination of both Confucian and Legalist traditions had been created and maintained in the feudalistic society of Imperial China for hundreds of years.

CONFUCIANISM AND LEGALISM IN CONTEMPORARY CHINESE SOCIETY

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

The Modern Struggle Between Confucianism and Legalism

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

In the early period of economic reform, almost all resources of the country were controlled by the state with a gigantic government organization, and the country was poor. When Chinese communists decided to adopt the policy of “allowing some people to become rich first,” the consequence 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
transformed them into their personal wealth. The second one was adventurous businessmen who decided to leave the old system and pursue personal wealth with their own efforts and wisdom. Because there were many “holes” in government regulations (Bian, 2002), many of them have taken advantage of the “gray area” to become rich. Contrary to these phenomena, the general public may request the government to “remedy the holes” by reforming the regulation system. These two opposing forces may also create tensions in the administrative sector and urge the government to take actions to reform the law. Thus, the government has yielded more power to the society, and the modernization of China can be conceptualized as a dynamic process of struggle between two opposing forces representing Confucian and Legalist cultural heritages, respectively.

Two Types of Guanxi

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

The so-called favor-seeking guanxi means that an individual interacts with the other party of a mixed tie in terms of the renqing rule. Viewing from the theoretical framework as presented in Table 1, there exist systems of regulation in any institution. Caused by a variety of reasons, the systems of regulation may have some flaws, which are called institutional holes by Chinese people. In this case, a petitioner may seek for guanxi with the resource allocator who has the decision-making power within the institution, interact with him/her in accordance with the renqing rule, and transform their relationship into the so-called rent-seeking guanxi. As an alternative definition of economic rent, here rent refers to the returns over and above the costs of employing a monopolistic resource by manipulating government policy (Buchanan, 1980; Su & Littlefield, 2001). Meanwhile, rent-seeking is synonymous with corruption in imperfect market conditions.
in which a decision-maker has the power to allocate a resource at a price below the market equilibrium level (Tullock, 1996).

Two Types of Officials

In the political structure of contemporary China, promotion of officials in the government is determined by a system of performance evaluation of cadres in the communist party. Since the early 1980s, Deng Xiaoping’s government had evaluated the qualification for promotion of low-rank officials in accordance with four criteria: revolutionary zest, knowledge, professional training, and youthfulness. Among these four, youthfulness is the most objective and has become the iron rule of promotion for government officials. For the sake of selecting young cadres, the central government has abolished all lifetime positions and established the age criteria for retirement as well as for candidacy of key government positions. Indeed, the “hard” criteria of age have profound influence on the career planning of Chinese government officials. One of its unintended consequences is the resulted differentiation of government officials into two types: The promotable officials are those who are expected to be promoted to higher positions; the terminal officials are those who are restricted for further promotions by age criteria, although they are still too young to retire (Zhong, 2003).

Rank-Seeking vs. Rent-Seeking

Long-term expectations shape different career goals for these two types of officials: Most promotable officials tend to set rank promotion as their primary goals. In order to be promoted along the hierarchy of bureaucracy, they must do their best to meet the performance criteria for official evaluations established by the government. Now the central government has adopted a governance model of horizontal competition for promotion to evaluate the performance of local officials, especially those who are at the top of the local governments. They can be promoted to higher positions only if their performances have proved superior to those of the same level. Such a mechanism has offered the promotable officials a strong motivation for performance achievements. They must try all their means to compete with colleagues of the same rank on various crucial performance
indicators. Consequently, local governments in China have manifested rapid
economic development as the key characteristic of strong governance.

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

The Duality of Governance in Contemporary China

The rent-seeking behaviors of government officials promote not only
common practices of corruption in the officialdom but also the widespread
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
and establish patron–client relationships with the officials (Kennedy, 2002,
2005a). Sometimes vertical relationships between private businesses and the
government are more important than horizontal relationships of business
cooperations. Therefore, some Western political science scholars argued
that the exploitive rent-seeking government is the most significant hindrance
for economic development in China (Kennedy, 2002, 2005b).

Rent-seeking and development pursuits constitute the duality of govern-
ance at various levels of the Chinese government. On one hand, there exists
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-
seeking officials who are utilizing every means to enhance their personal
income. Therefore, governments of various levels are characterized by
strong governance, emphasizing rules of the formal legal system and rent-
seeking behaviors that are outside of the legal system (Zhang, 2008). The
dual structure of the political system urges private sector businesses to meet
government requirements in public, while establishing particular personal
connections with government officials in private.

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
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.

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.

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

It should be noted here that, as a vertical society emphasizing mutual obligations between the superior and the subordinate, Chinese society is fundamentally different from Western society of individualism, advocating 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 ask his/her subordinates for suggestions to deal with various challenges, making decisions by setting clear-cut organizational goals, fully communicating with followers and encouraging them to strive for the attainment of their goals.

Cooperative Goals for the Greater Self

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

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

Tjosvold and his colleagues (Chen & Tjosvold, 2007; Chen, Tjosvold, & Fang, 2005) further interviewed Chinese employees from various industries
in Shanghai on specific incidents where they had a conflict with their Japanese or American manager. Results of their research showed that a cooperative approach of conflict management, rather than a competitive or independent approach, helped Chinese employees and their foreign managers develop quality relationships, improve their productivity (Chen et al., 2005), strengthen trust and commitment (Chen & Tjosvold, 2007), and promote team effectiveness (Tjosvold, Poon, & Yu, 2005). Thus, they concluded that cooperative conflict management may be an important way to overcome obstacles and develop effective leader relationships within and across cultural boundaries.

Open Communication

They also noted the importance of social face (Tjosvold, Hui, & Sun, 2004) and nonverbal communication of warmth (Tjosvold & Sun, 2003) in the process of Chinese conflict resolution. Understanding that social face has been used to explain the proclivity of Chinese to smooth over conflict, findings of their experiment and field interview showed that communication of warmth as well as confirmation of face may induce open-mindedness and redirect controversy as participants asked more questions and explored the opposing views. Moreover, though Western theory has assumed that avoidance is a largely ineffective approach, their empirical research indicated that Chinese managers and employees relied upon the other person, promoted task productivity, and strengthened the relationship with whom they shared a prior strong relationship and 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.

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

In sum, a Chinese organization leader cultivates oneself with a Daoist mind of emptiness and calmness that enables him to have a “wateristic”
character to remain in low position for empowering followers. He should be able to define clear-cut goals for their “greater self” (da wo) with a careful consideration of their extended situation, then utilize all means of Confucian social skills to moderate his subordinates to attain their organizational goals. Finally, he must be able to reward or publish performances of his subordinates in accordance with the Legalist system of regulation. This is called either ethical leadership (Wu, 2004) or moral leadership (Cheng, Chou, Wu, Huang, & Farh, 2004; Farh, Liang, Chou, & Cheng, 2008) in the context of the Confucian cultural tradition.

THE RESEARCH METHODOLOGY OF INDIGENOUS PSYCHOLOGY

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.

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

The Cultural Perspective

Those researches are obviously concerned with the regulation of rent-seeking guanxi by the perfection of institutions. In contrast with this 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 Chinese cultural tradition. According to the cultural perspective, the guanxi phenomenon is by no means transitory. Boisot and Child (1996) argued that the Chinese cultural tradition would shape their economic reform to a direction of clan-like network capitalism, where the guanxi might become the label of Chinese economy because guanxi is “the major informal, unofficial institution in the Chinese speaking world as a whole” (Parnell, 2005). Wank (2002) also believed that some aspects of guanxi might be declining as China develops its capitalism, but guanxi would adapt to market economy and find new circumstances to flourish.

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

The Research Approach of Indigenous Psychology

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

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

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

CONCLUSION

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

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

a. The holistic tenet: Each eye embedded in the opposite element as well as the two opposite elements to constitute the entity illustrate the holistic tenet that an entity’s completeness has to be accommodated by its inconsistency, both in relative terms.

b. The dynamic tenet: The developmental flow from a marginal force to a dominant force and then merging into its opposite element illustrates the
dynamic tenet that each element is in a constant change in tandem with its opposite force that both strengthens itself and weakens itself, both in relative terms.

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

As I discussed before, the lens of yin/yang originated from Chinese ancient cosmology that has been used by Chinese people to recognize the 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 topic of strategic management and ethical leadership, and take it as an example of my advocacy for doing research of indigenous psychology. Such a research methodology of theoretical construction and empirical research has been used to study psychological events in other domains, including moral reasoning and moral judgment, face dynamism, social exchange, achievement motivation, conflict resolution, etc. (Hwang, 2012). It is 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).

UNCITED REFERENCE

Li & Zhou (2005)

REFERENCES


Guthrie, D. (2002). Information asymmetries and the problem of perception: The significance of structural position in assessing the importance of guanxi in China. In T. Thomas,
The Strategic Management of Yin/Yang Balance


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