More or less guanxi: Trust is 60% network context, 10% individual difference

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Abstract

The strong ties known in China as guanxi can be distinguished by a high level of trust relatively independent of the surrounding social structure. Using network data from a stratified probability sample of 700 entrepreneurs citing 4664 contacts, we study guanxi relative to other relations to learn how much individual differences such as well-being, business differences, political participation and demographic factors matter for the guanxi distinction. Two findings stand out: First, the connection between trust and social network is robust to most differences between individuals, especially business and political differences. Trust variance is 60% network context, and 10% individual differences. Trust increases within a relationship as network closure increases around the relationship, but some relationships mature into guanxi ties within which trust is high and relatively independent of the surrounding social structure. Second, when individual differences matter, they concern social isolation. Guanxi ties are more distinct in the network among entrepreneurs with small, marginal families, and around those with small, closed networks. Both categories of entrepreneurs are likely to experience difficulties with respect to resource access and doing business with people beyond their network, which may explain why longstanding guanxi ties linked to important events are particularly distinct for these entrepreneurs.

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Introduction

A first rule of social capital is that closed networks facilitate trust. The gist of the rule’s explanation is that evaluative stories about personal behavior reach everyone within a closed network such that reputational distinctions arise between admired and distained individuals, and to preserve one’s own reputation, people in the network avoid individuals with negative reputations in preference for individuals with positive reputations. By creating a reputation cost for bad behavior, closed networks lower the odds of bad behavior between people in the network, so the risk of trusting others within the network goes down, and the probability of trusting others goes up. In short, closed networks facilitate trust and collaboration by creating reputation costs for bad behavior. Or, as Coleman (1988, p. 107–108) summarized: “Reputation cannot arise in an open structure, and collective sanctions that would ensure trustworthiness cannot be applied.” The high trust found in closed networks can enable predators (Yenkey, 2018), but there is abundant evidence in economics, political science, and sociology showing that trust is typically higher within relationships more embedded in a closed network (e.g., Coleman, 1988; Greif, 1989; Putnam, 1993; Uzzi, 1997, 1999; see Burt, 2005, Chps. 3–4, for review).

Evidence for the closure-trust association has been primarily from networks around North Americans and Europeans, but Burt and Bruzynska (2017) use exceptional data on a large sample of Chinese entrepreneurs to show that trust and closure are associated in Chinese business networks as they are in the networks around Western managers. At the same time, trust is so strong in some cases that trust is relatively independent of the surrounding social structure. Burt and Bruzynska show that such ties can also be found in the West, where about one in ten relations corresponds to such ties for the Western business leaders, but they are more characteristic of the networks around the Chinese numbering two out of three contacts, so they refer to the ties by their colloquial Chinese label: guanxi. In Chinese literature, guanxi ties have three qualities: (1) familiarity, intimacy (2) trust, and (3) mutual obligation (Bian,
Baseline model and data

We begin with the baseline model that provides the frame of reference for our analysis. Fig. 1 is a diagram of the network definition of guanxi as ties with individuals who have provided significant help in the history of a long-standing relation proposed in Burt and Burzynska (2017). We should note that these event contacts qualify as guanxi regardless of when the contact was cited for an event, and regardless of the substance of the event(s) for which the contact was cited (Burt and Opper, 2017). The unit of analysis is a relationship. The horizontal axis distinguishes relationships by the extent to which they are embedded in a closed network (Granovetter’s, 1992, “structural embedding”), here measured by the number of third parties (mutual contacts) surrounding a relationship. The vertical axis is a measure of trust in the relationship (measure discussed below). Trust within each relationship is regressed across log number of third parties embedding the relationship.

We turn to data in a moment, but the point in Fig. 1 is the two closure-trust associations: a nonlinear dashed line spanning a wide range of trust levels that increase with network closure (number of third parties to a relationship), and a solid line of high trust levels that do not covary much with network closure. The dashed line is often found in the networks around Western managers. When two people have no mutual friends, their relationship is a bridge between their respective groups, illustrated by the diagram below the zero point on the horizontal axis. The more mutual friends two people have, the more closed the network around their relationship, and the more likely the two people are members of the same group, illustrated by the diagram below the “6 or more” point on the horizontal axis. Trust increases quickly with the first few third parties, then less quickly with additional third parties (e.g., Burt, 2005. Chps. 3–4). This is also the closure-trust association on average across business relations in China (Burt and Burzynska, 2017, Fig. 4). Guanxi ties are a level and slope adjustment to the familiar (dashed-line) closure-trust association: the solid line in Fig. 1 shows a high level of trust across levels of network closure. These findings resonate well with trust research showing higher levels of trust when trustee and trustor experience a “critical test” in exchanging and receiving a unilateral favor (Kollock, 1994).

Network data

We have data on the social networks around 700 Chinese entrepreneurs operating manufacturing firms in three provinces surrounding the Yangtze River Delta: China’s financial center, Shanghai, Jiangsu Province with the capital Nanjing to the north, and Zhejiang Province with the capital Hangzhou to the south. The three provinces account in 2013 for 20.2% of China’s gross domestic product, and 31.9% of China’s imports and exports. The sample is a 2012 continuation of samples surveyed in 2006 and 2009 (see see Opper, 2012, p. 52–70, for details).

Network data were obtained with name generator and name interpreter items. Such items are, of course, routine in survey network research (Marsden, 2011), familiar in network surveys of management populations (Burt, 2010, p. 281f), and have precedent in China (Ruan, 1998; the 2003 Chinese General Social Survey, Bian and Li, 2012; Xiao and Tsui, 2007; Batjargal et al., 2013). The survey instrument and interview materials are available in the original English (see acknowledgement note).

Our name generators asked for the people most valuable to the respondent’s business this year (2357 people named), the most
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