

Cha Xu Ge Ju as Social Capital for the Growth of Agricultural Enterprises¹: A Case Study of Wen's Group

Xiuqin Liu

*College of Economics and Management, Guangdong Research Center for Agri-business Development, South China Agricultural University, 483 Wushan Lu, Tianhe District, Guangzhou City, Guangdong Province, 510642, China
Cell: 86-135-3891-7110 E-mail: xql@scau.edu.cn*

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ABSTRACT The purpose of this paper is to indicate the law of the evolution of Cha Xu Ge Ju and organizational social capital throughout the growth of agricultural enterprises. It develops by discussing the connotation, features and connection of Cha Xu Ge Ju and organizational social capital. The paper first expounds the dimensional structure of Cha Xu Ge Ju in China. It then discusses the model of features of Cha Xu Ge Ju under the evolution of social capital. Finally, a case study is used to test the model. The paper finds that organizational social capital of primary type agricultural enterprises has remarkable feature of Cha Xu Ge Ju. The level of trust, strength of network, and emotional behaviors decline in this type of enterprises accordingly. The case of Wen's group indicates the strong connection between the growth process of agricultural enterprises and the operational process of social capital that takes full advantage of Cha Xu Ge Ju. Moreover, the expansion of Wen's group is indeed the process of integrating all kinds of social capital under the law of Cha Xu Ge Ju in social structure and interpersonal relationship.

INTRODUCTION

Cha Xu Ge Ju and Agricultural Enterprises Growth

Fei Hsiaotung (1985) has put forward the theory of Cha Xu Ge Ju (pattern of difference sequence), which describes how ties of kin changes interpersonal relationships and therefore has a great impact on social structure. He shows the social relations in reproduction organized by the traditional rural society and reproduction mechanism in socialization and social order (Pan and He 2010). Western social structure is like a "group pattern" as individual bundles of firewood while that of Chinese rural community shows the pattern of Cha Xu Ge Ju, which can be illustrated as the ripples wafted over by throwing a stone into the water.

The Connotation and Evolution of Cha Xu Ge Ju

Cha Xu Ge Ju, first pointed out by Fei Hsiaotung (1985), is the circle-layer mode of different sequence in human relations, reflecting the closeness or distantness of different relation. Those concentric circles are drawn based on blood relation, with self being in the center and other kin scattering around according to closeness with

the central person. This family-oriented and self-based structure is shown below (see Fig. 1). With the development of Chinese market economy, family business (Zhou and Tian 2014), which has significant Chinese characteristics, gradually growth, and the connotation of Cha Xu Ge Ju based on blood relation has extended. Economic interest has become critical tie of family connections. Families get together in order to expand economic cooperation on a mutually beneficial and profitable basis instead of simply connecting with each other (Wang 1987). Therefore, relatives and unrelated persons will be included into the circle as long as it is profitable. Members in the center of the circle trend to strengthen their ties with members who have greater instrumental value. In this sense, the connotation of Cha Xu Ge Ju evolves as to a decreasing mode of instrumental value from the center outward (Li 1993). Because of this, interest (the instrumental value) becomes a decisive factor for close or distant relations, apart from blood relation (see Fig. 2).

The interpersonal relationship in Cha Xu Ge Ju that is based on blood and interest has weakened original blood relations and increased its complexity because of integrating interest factors. With interest connections, conflicts among families aroused by traditional ethics will have even greater impact on interpersonal relations, in which families with greater mutual interests

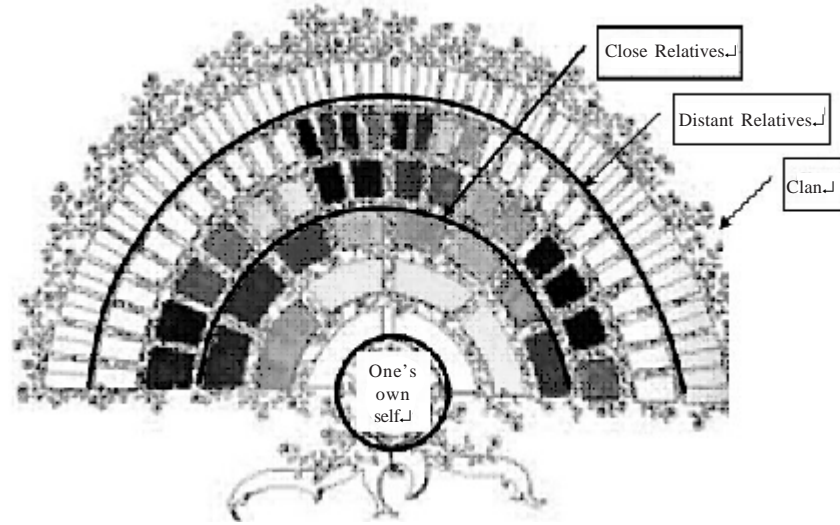


Fig. 1. Cha Xu Ge Ju of the clan base on family tree

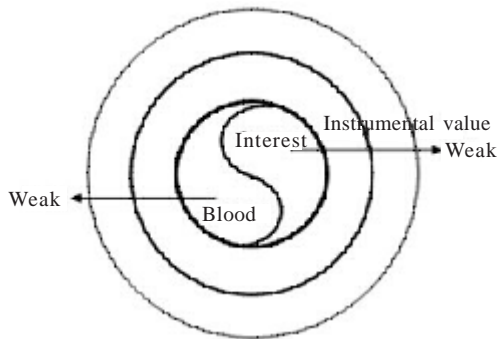


Fig. 2. Two-dimensional Cha Xu Ge Ju

become closer and those with weaker ties become more distant and sometimes even end up hostile.

Along with the further development of economy and the improvement of social system, value base in Chinese rural community has undergone a critical shift. Cha Xu Ge Ju not only reflects social structure and human relations in the countryside, but also becomes a pattern of managing scarce resources in society (Sun 1996). With the integration of political power that has absolute control over social resources, Cha Xu Ge Ju has gradually formed a new pattern which includes interest; power and relation² (see Fig. 3). Under the social background of corruption

and mercenary, the rights order and interests order may transcend relations order and play an important role in the communication of daily life (Yang and Hou 1999; She 1997).

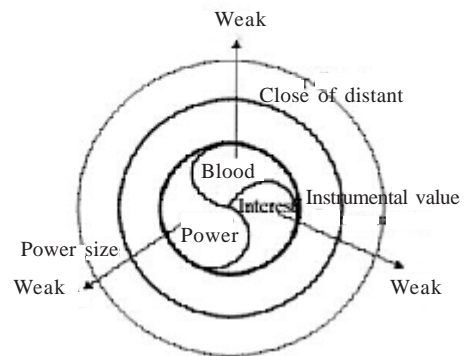


Fig. 3. Three-dimensional Cha Xu Ge Ju

The Three-dimensional Connotation of Cha Xu Ge Ju in Agricultural Enterprise Organizations

Fei Hsiaotung has pointed out that business seldom develops in a society that is based on kin network. He explains that in this kind of society business develops based on Renqing (closeness of kin tie). But in real economic activities,

businesses are carried out with ration and with 'ruthlessness'. It calls for logical analysis rather than emotions (Fei 1985). However, primary types of agricultural enterprises³ in the countryside have to not only maintain relations in the family, but also accomplish profit targets. In addition to the lack of resources, social structure and interpersonal relationship have a more significant effect on the development of agricultural enterprises than industrial enterprises. Cronyism and love with differentiation have flourished in the agricultural enterprise organization. They are important ways of cutting operational cost within the organization. Human relations and the law of Cha Xu Ge Ju penetrate through all aspects of enterprise development. Therefore a significant and unique enterprise management pattern is developed with the coexistence of the Confucian ethics and laws, of the formal and informal institutions, and of the rule of men and rule of law.

Traditional blood relations, acquired business relations, political relationships and formal bureaucratic organization intertwine with each other. Although each branch in a formal organization is initially designed under rational analysis and is in accordance with logical links in a bureaucratic organization, the interactions among individuals within branches and the operation of the whole organizational networks partly or even completely copy the link mode of traditional blood relations. In order to maintain relations and accomplish profit objectives, primary types of agricultural enterprises will turn formal relations into informal relations while in the meantime keep with Cha Xu Ge Ju. Therefore the organization structure and human relations of the agricultural enterprises, including the expansion path of organizational boundaries and ways of organizational regulation, emerge as a three-dimensional Cha Xu Ge Ju pattern. This pattern not only follows the ethical order which is based on blood and business relations but also has instrumental rationality which is based on interests. A comparable numbers of primary type agricultural enterprises develop with the intervention of governmental power so as to ac-

quire important information with the lowest cost, enjoy policy privilege and issue guarantees. What is more, enterprises can get more approval to business loans and gain access to important channels of distribution. Therefore the order of human relations based on blood and rational behavior become coordinated and coexistent. In the end the management pattern which includes interest, power and relation is formed.

Social Capital and Agricultural Enterprises Growth

The characteristics of social capital in the organization include trust, network structure and regulation (Putnam 1993). Trust in the organization represents the nature of social capital. Network structure shows structural feature of social capital. Regulation is reflected in the standard of behavior (Liu et al. 2010). Social capital in the organization and enterprises growth are interrelated and interact with each other (Le et al. 2006). The capital attributes and structural feature of agricultural enterprises have remarkable differences in different stages (Table 1).

Stage 1: Primary type agricultural enterprises originate in families in the countryside. Social capital at its initial period demonstrates remarkable features of family. Blood relations are not only the basis of building trust but also one of the important ways to gain resources (Guo 1994). Due to the long cycle of agricultural production and high risks, high costs of supervision, the input of capital is restricted. Under these circumstances, family social capital as a kind of capital is used in the organization to relieve pressure in the initial stage. High-level trust among families, strong ties in social network, interactions with emotional tendencies, and the widely accepted value orientation make social capital an essential part of agricultural enterprises. Meanwhile, the family network structure inherited by enterprises has strong ties and members in the organization regarding emotional order as a significant basis for standard of behavior.

Table 1: Social capital attributes of agricultural enterprises in different stages

	<i>Stage 1:Introduction</i>	<i>Stage 2:Growth</i>	<i>Stage 3:Mature</i>
Social capital type	Family social capital	Pan-family social capital	Institution social capital
Capital attributes	Family trust	Pan-family trust	Institution trust
Structure features	Family network	Double network	Hierarchy network
Standard of behavior	Emotion	Tool	Contract

Stage 2: Enterprises develop by absorbing non-family members and expanding the geographical scale. At the growing-up period, trust in agricultural enterprise organizations expands from family to pan-family which includes relatives and folks. Individual behaviors based on relations in the organization reduce gradually and instrumental rationality of behaviors grows. While there is a conflict between relations and interests, the organizational network structure has two-sided connection between family and bureaucracy and it lowers the economic efficiency of family network (Yang 2010).

Stage 3: Under the pressure of standardized management and institution, the original main pan-family trust is replaced by institution trust in the bureaucratic network. Individual behaviors start to turn from following relations to obeying superiors and regulations. Contractual behaviors of following rules become a norm (Lin 1990).

Features “Similar Cha Xu Ge Ju” of Social Capital Evolution in Agricultural Enterprise Organizations

According to the current definition of social capital, the three-dimensional pattern of blood relation, interest and power constitutes social capital. The blood relation and geographical relation of traditional Cha Xu Ge Ju show the meaning of resources study (Bourdieu 1985). In addition, interest and political power reveal the meaning of function study of social study (Coleman 1988). Social structure and human relations of the center of Cha Xu Ge Ju this paper discussed above comprise high-density region of social capital.

Putnam (1993) pointed out that the characteristics of social capital consist of organizational trust, network structure in the organization and standard of behavior of individuals. Along the growth trace of organization, these characters of primary type agricultural enterprises have reg-

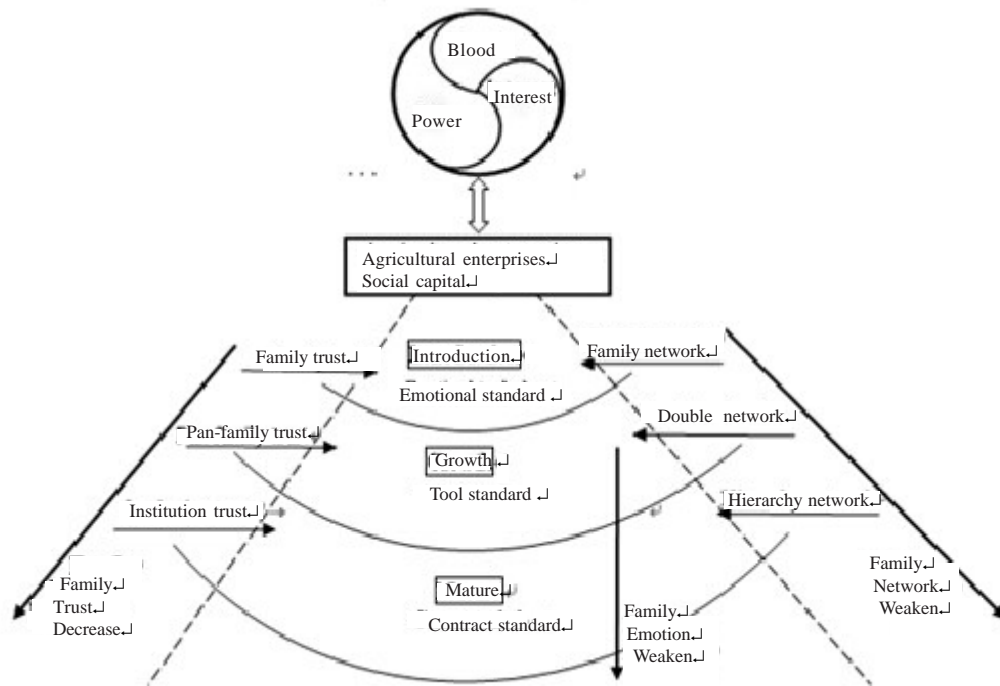


Fig. 4. Features of Cha Xu Ge Ju in the evolution of social capital

ularity alternated with characteristics like Cha Xu Ge Ju (see Fig. 4).

Trust Pattern of Cha Xu Ge Ju

Organizational trust in agricultural enterprises at its initially created period is based on family relations, so members trust each other on a high level (Xu 2011). As enterprises enter the growing-up period, organizational trust shows rules that family trust, pan-family trust and institution trust are replaced in turn. Since different kinds of trust have different level, trust in family is high-level, pan-family trust gets moderate level and the level of institution trust is the lowest (Chu and Li 2003). This means that along with the growth of enterprises, non-family members join in and the conflicts of interest and power in the family are accumulated. The level of family trust that is at the center of Cha Xu Ge Ju at initially created period drops in turn. With the expansion of enterprises, Cha Xu Ge Ju has a new connotation that the original family trust is replaced by pan-family and institution trust gradually.

Network Pattern of Cha Xu Ge Ju

During the initially created period, human network in agricultural enterprises which includes blood relations and geographical relations is very small. Therefore the interaction within the network is more frequent and the strength of human network is greater. With the expansion of enterprises, the human network based on family is covered by hierarchy network of formal organization. Family network and the strength of network would be weakened along with the growth path of enterprises. Moreover, the degree of formalization of organization and the hierarchy network coverage increase gradually. At the same time, the informal network coverage and interaction among members decrease.

Behavior Pattern of Cha Xu Ge Ju

The emotional guidance of family members' behavior in enterprises also reduces at the initially created period. Family relations are replaced by the instrumental ones during the growth. Human interactions are largely guided by interest and power to formal institution in the organization. Therefore, characteristics of Cha Xu Ge Ju in the level of family trust, strength of family network, and standard of behavior fades away

along with growth. The only difference is that enterprises will adopt hierarchy instead of family because of clear efficiency and profit target.

CASE STUDY

Background

Entrepreneurial Hardship

Guangdong Wen's Foodstuffs Group Ltd whose head office is in Xinxing County, Yunfu, Guangdong China was the typical agricultural enterprise in primary type agricultural enterprises. Wen Beiyong, the founder of Wen's, took the lead in collecting 8000yuan to establish Lezhu animal affiliated company in 1983. There are 7 households and 8 shares when the company was founded. Among the members of the company, Beiyong and his son were one of the households with two shares. JinChang, MuHeng and WenZhan are all consanguine brother who came from Shitouchong Country. YanBaiCao was PengCheng's desk mate in high school who is from Chegang, Xiangtang Country. After graduating from high school, they set up a hogger. In addition, LiangHongChu was BeiYing's good friend who is the station master of DongCheng food station, one of food companies in the town. WenZeXing was the secretary of the Party committee in Lezhu Commune at the time. Although the last two members did not join in the company's fieldwork, they support the company by contributing capital⁴. In comparison with the starting fund, the components of the social capital of the predecessor of Wen's Group were so rich. After the contract responsibility system was carried out, many professional raising farmers have come forward in the country. Furthermore, the sales volume in animals increased rapidly. During the time of intense competition, the members of Wen's Group have experienced all the hardships. Every day they got up early to butcher pigs and sauted about 1000 kilograms soybean one night. But the reward of that was only 30 Yuan every month. Although tired out every day, the members of the company stick with the work by deep feelings and high-level family trust.

Rapid Expansion

Wen's Group set about the new cooperative model of companies plus farmers in 1986. The

integrated system including the procurement of supplies, production and marketing which was treated as the industrial revolution of Wen's Group by the media was set up in 1989. It had changed the traditional mode of animal production that separated industry from agriculture. Thanks to the revolution, the enterprise began to adopt the normative management method. During this time, The Lezhu farm developed itself from the mainland to the eastern and northern region, even the town. The branch office was founded in Niancun in August, 1992. Xinxing Wen's foodstuffs Group Ltd was founded in January, 1994. And the branch office in Chegang opened in February, 1995. The geographic distribution can be seen in Please refer to the inside of large oval of Figure 5. The network of chicken farm has covered the whole county and Yunfu, Gaoyao, Yangchun, Kaiping, Gaoming, Heshan and so on (see Fig. 5). More and more farmers wanted to cooperate with Wen's Group because of the right strategic choice. From the Table 2, it can see that the number of cooperative farmers rose from five in 1986 to forty thousand in 2007. Meanwhile both the number of staffs and non-native has increased step by step. The number of staffs from other places accounted for about sixty percent of the company (Table 3)⁴. In other

words, the company was out of the trend of localization.

Great Achievement

The main business of Wen's Group is poultry industry and pig husbandry, engaging in biopharmaceuticals and food handling. The modern large-scale enterprise developed all over industries and regions that established about 110 branches around Guangdong and 20 provinces at home (see Fig. 6). Wen's became the first leading agriculture enterprise in Guangdong whose scale was around ten billion in 2007. Wen's Group introduced informatization construction in agricultural production that makes marketing and financial information sharing possible. On the whole, the enterprises took the lead in management among the agricultural enterprises all over the country. Wen's Group has become the leading industrialized agriculture enterprise in the whole country, a key high-tech enterprise of the National torch plan. Also it was awarded the benchmark enterprises during 30 years of reform and opening-up, the top100 private enterprises in Guangdong. "Achieve common prosperity, bring benefits to staffs" was its corporate mission. And the core idea of its corporate culture

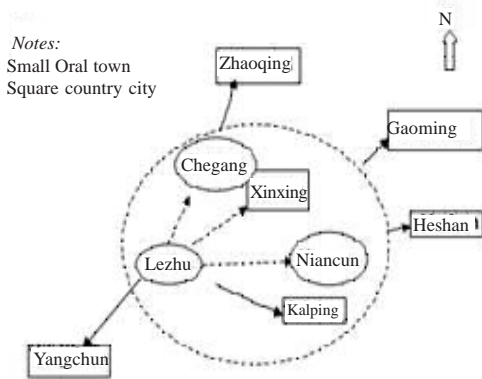


Fig. 5. The distribution of Xinxing County at Wen's new created period

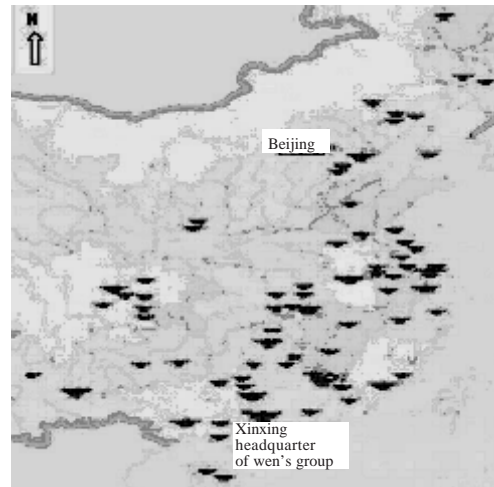


Fig. 6. The national distribution of Wen's group

Table 2: The number of cooperative farmers with Wen's

Year	1986	1987	1989	1990	1992	1994	1997	2000	2003	2007	2010
Farmers	5	30	180	280	1500	4600	8000	12000	23000	36500	47000

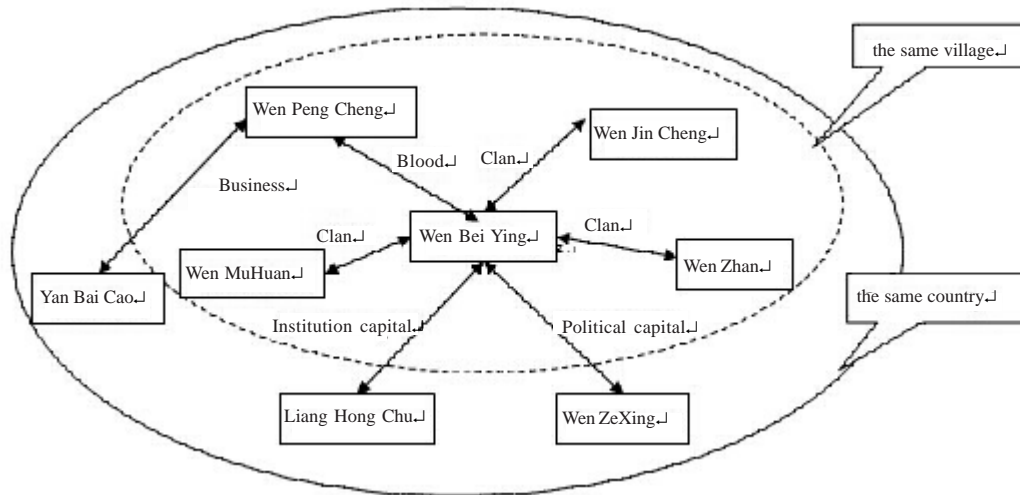


Fig. 7. Social structure of Cha Xu Ge Ju in Wen's group⁷

was "cooperate with each other sincerely, create happy life together". Wen's has become a good example of agriculture enterprise in China.

Case Study: The Evolution of Social Capital Guided by Cha Xu Ge Ju

The Connotation of Cha Xu Ge Ju in Wen's Group and Characters of Organization Operation

At new created period, Wen's has formed the pattern of connection which included blood relations, business relations that based on family (see Fig. 7). In the center of Cha Xu Ge Ju, there were not only WenBeiYing and immediate relative WenPengCheng but also three members in the family and Wen's, the folk YanBaiCao. Meanwhile, there were two public officers who had political power LiangHongChu who was the head of DongCheng Food Station of Foodstuffs Company in Xinxing and WenZeXing who was the secretary of the Party committee in LeZhu Commune. Therefore the administration pattern in the center of organizational power including relation, interest and power has formed.

The characters of Cha Xu Ge Ju in Wen's Group following the three-dimensional order "relation, interest, power" at the growing-up period were obvious. Behind the form of formal organizational structure, there were family relations and operation mode. From the perspective of power,

the closer the blood relations, the nearer it was to the center of Cha Xu Ge Ju and power held was more important. The power in decision making, raw material purchasing and finance management mainly concentrated on the center of Cha Xu Ge Ju. The priorities to assign interests were established according to a close or distant relation. As the circle of Cha Xu Ge Ju was outward from the center, income decreased gradually. So the nearer it was to the center of Cha Xu Ge Ju, the higher the income were. What's more, due to institutional deficiencies at new created period, enterprises often adopted negotiation and reconciliation or resolved internally rather than using formal regulation on the method of solving all of the problems and contradictions (Qing and Zhong 1994; Guo 1994).

In addition to the general organization internal management, the rules in selecting cooperative farmers and expanding organization were as same as the law of Cha Xu Ge Ju. Because of family relations and political power⁶, selecting farmers and expanding organization developed from the mainland to the town even other towns and finally the whole nation (refer to Fig. 5 to Fig. 7). The expansion of organizational boundaries reflected the theory of Cha Xu Ge Ju in enterprises growth. Enabling power and assigning benefits followed the three-dimensional order "relation, interest, power". Interest, power and relation made up the important parts and characters of sustaining operation of Wen's Group at new created period.

Characters of Social Capital of Wen's Group in Different Stages

Family social capital was the fertile ground for Wen's Group to set up business. Agricultural production has high risk and high costs of supervision which result in a lack of original capital. It has become the main cause of primary type agricultural enterprises closing down. After Chinese country adopted contract responsibility system, family relations became the important support and institutional guarantee under the production mode that family became the main unit. Classification can be seen in Table 1.

By virtue of rich social capital including blood relations, business network and standard of behavior based on relations, Wen's Group optimized agent contract and reduced the existence of opportunism, lowered costs of organization cooperation, supervision and control. With the help of mobilizing human network and integrating physical capital, Wen's overcame the limitation of original capital and mobilized physical capital and human capital effectively.

Country social capital guaranteed the cooperative model of companies plus farmers operating effectively in growth stage. A company which develops rapidly should face with the difficulty in capital and pressure in institution at the same time. The family social capital which has once supported Wen's Group could not satisfy more and more demand in material and human capital any more. The organizational pattern of companies plus farmers set up by Wen's Group reduced organizational cost in animal production in large scale and resolve the lack of material capital caused by great expansion because of subcontracting the production which had high cost in supervising. What's more, the pan-family trust produced by high prestige from elites in Wen's family with honest habits of villagers in the west of Guangdong ensured the strength of enforcement. The abundant country social capital provide an institution guarantee to make the model of companies plus farmers which had almost 80 percent in the default rates (Liu 2003) carry out in Wen's Group about 30 years.

Institution-based social capital in mature stage promoted the industrial revolution of Wen's Group. With Wen's Group developed rapidly, more and more outside capital were absorbed. The first group of technicians was introduced in 1986. Among 759 managers who were superior to director came from other provinces that accounted for 44 percent of the whole (Table 3). The introduction of people who came from other places made capital attributes change significantly. The trust based on family and country faded away and organizational characters of social capital also has changed. The interpersonal relationships net expanded from villagers to strangers that the strength between people declined and the complexity of the organization relationship strengthened.

In order to avoid the risk in the transformation of social capital, Wen's took action to reform. Until 2004, Wen's Group has established the personnel system, act system, finance system, stock management system and so on. The well-established administration structure and transparent managerial system made substance stimulation of shares take place of emotional obedient that aroused obedient consciousness among staffs. Also the institution trust in the organization made up for family-based trust and hierarchy network covered family network. Contract logic based on hierarchy took place of emotion logic. The enterprise stepped across the difficult time of normal management and stepped in modern enterprise management.

Features of Cha Xu Ge Ju of Social Capital Evolution in Wen's Group

Wen's Group formed in the western countryside of Guangdong Province that the people were honest and simple. At new created period, with the limitation of the initial capital and organization system, Wen's Group has the special organizational structure which integrating Wen's family, the same clan brothers, friends and some powerful acquaintances. The rich social capital improved the ability to overcome the obstacle at

Table 3: The source places of staffs in Wen's

<i>Source place</i>	<i>Local in the town</i>	<i>Local in the country</i>	<i>Local in the province</i>	<i>Other provinces</i>
Number of people	900	5600	3500	8000
The proportion of distribution	5.00	31.25	19.38	44.38

new created period. Along with the enterprise growth, the large-scale introduction of strangers, people from other places, cooperative farmers and the accumulation of conflicts between interests and powers made family trust in Wen's Group faded away. And the high-level trust in the family was replaced by the low-level institution trust. So the level of trust in the organization appeared as the typical Cha Xu Ge Ju and showed the trend of descending gradually.

As Wen's Group expanded from Lezhu to Nianchun, Chegang and the whole Xinxing, the structure characteristics of social capital in the organization has changed. The interpersonal network structure of the internal and external of Wen's Group also expanded from family to bureaucracy that the frequency in communication with family diminished. As a result, the informal organization that consists of their acquaintance circle was covered by formal organization. In the meanwhile, the emotional guidance standard of behavior in Wen's Group also faded away. Relationships among members of family and friends, emotional responsibility, the cooperative clans and villagers at new created period were replaced by instrumental orientation along with enterprises growth. Furthermore, various forms of exchanges were almost based on interests and power, obeying the formal system in the bureaucracy.

Notably, the management pattern with family, interests and power at the centre has more obvious characteristics of Cha Xu Ge Ju with its development. The more social capital the person has the closer to the centre of organizational power. In turn, the closer to the centre of organizational power, the richer social capital the person has. The social structure and interpersonal relationship at the center of Cha Xu Ge Ju represented high-level trust, frequent interactions and highly regulation. As Fei Hsiaotung has said before about blood relationship and social influence, the social capital in Wen's Group like a lot of ripples wafted over outward from the centre—the farther, the thinner. Cha Xu Ge Ju existed not only in blood relations and geographical relations (Fei 1999) but also in the organizational social capital based on trust, network and regulation.

What is noticeable is that the top management team of Wen's Group confirmed the focus of management in its third decade. Apart from incentives for cooperative farmers, Wen's Group advocated for the management notion—"cooperate with each other sincerely, create happy life

together". Today, with establishing for 28 years, Wen's Group strengthened moral consciousness actively and enriched the social capital. All in all, it is worth studying from the perspective of management and sociological meaning.

CONCLUSION

Under the social background of weak ethic and strong interests, the connotation of Cha Xu Ge Ju in the social structure and human relations caused by blood relations and geographical relations in the countryside has changed greatly. Along with interests and power integrating into family, the new pattern including interest, power and relation has become the main influential factor of social structure and group behavior. Interest, power and relation constitute social capital in the current organization. Among them, blood relations and geographical relations represents the resource characteristic of social capital while interests and power represents the function characteristic. The centre of Cha Xu Ge Ju in the social structure and human relations discussed previously composes the congestion of social capital. Moreover, the characteristics of social capital are described by theorists as trust, network structure and standards of behavior among members in the organization.

Most of primary type agricultural enterprises origin from family, so the social capital they have played an important role along with enterprises development relative to non-agricultural enterprises. In the background of family culture and ethics standard, agricultural enterprises are confined by high risks and a lack of capital in the production. Agricultural enterprises have to put available resources including blood relations, interests, and power into the organization. Although enterprises should cope with conflicts among the three-dimension, they enjoy comparative advantages that come with rich social capital.

The Cha Xu Ge Ju in the social capital of agricultural enterprises changes regularly as do the pattern in the social structure and human relations. Along with enterprises growth, resource attribute of enterprises transforms from family trust to pan-family trust and institution trust. The network structure transforms from family network to bureaucratic network. The behavior standards among staffs in the organization transforms to emotional logic, tool logic, and contract logic in turn. The level of family trust,

the strength of family network and group emotional intend decrease accordingly.

At the initially created period, the pattern of Wen's Group runs as the typical three-dimensional model with interest, power and relation being the centre of the organization. It has demonstrated intensive social capital feature. Wen's Group went through the difficult pioneering period by virtue of rich family social capital. Because the social capital came from the western of Guangdong where people were honest and simple, Wen's Group gained high rate of contract performance in the cooperative with companies and farmers. Wen's Group also implemented from family-controlled firms to the leap of modern hierarchical organization by adopting modern corporate governance structure of shareholding system. To sum up, the growth of Wen's Group was the process of taking full advantage of Cha Xu Ge Ju in the social capital. In addition, the expansion of Wen's Group was the process of integrating all kinds of social capital along with Cha Xu Ge Ju in the social structure and human relations.

NOTES

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2. Interest order is the cooperative pattern formed by partners for profit which is based on the pay such as the land and capital. Power order is the man at the ultimate power center who controls resources. Relation order is that the cooperative action is taken just because of care from friends, family and responsibility.
3. It is means that the firm is growing from small to large, not by M and A.
4. Wen's Group Internal Data.
5. Data come from Wen's Group.
6. The establishment of Niancun branch and Xinxing Wen's foodstuffs Group Ltd were promoted by the local government and Chegang branch was founded because of the promotion of a local, YanBaiCao.
7. The two concepts—institution capital and political capital come from: LiLuLu. Private enterprises in transfer to market economy. *Journal of Sociology*, 1998(6):85-102

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