

As the business world plans to enter the next millennium, many eyes are turned towards China. Even the Chinese themselves, an introspective people for a long time, wonder as to where the future will take them as the world changes. While Marx, Lenin and Mao Zedong remain political centerpieces within China, the more pragmatic question is what world view should best guide business relations between China and the capitalists. Indeed, the search may be afoot and in earnest for a new model of international relations, and the man of the decade may well be Kong Fu Zi (551-479 B.C.), or *Confucius* as he is better known to the world through his Latinized name.

Confucius-

The Key For Doing
Business in the
Pacific Rim in the
Twenty First Century

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Association of Confucius with the Economic Miracle of the Pacific Rim

In light of the remarkable economic transformation that has taken place in the Confucian world in the past few decades, significant business opportunities will present themselves to the West. By "Confucian world," we refer to China herself, and just as importantly, all those societies outside China that share the Confucian way of thinking, whether they be other countries, communities, or clans.

Confucianism, far from being an outdated tradition, has great relevance to international business. The reason is that Confucian values, in tandem with modern capitalism, have reshaped the Pacific Rim economies into a new form that must be reckoned with. The economic miracles of Japan, Singapore, Hong Kong, South Korea and Taiwan are examples of successful business practices based on Confucian thinking. All these countries achieved spectacular economic recovery from the fallout of war and poverty. Business leaders of the Confucian world have succeeded in developing a management style of their own based on an innovative blending of Confucianism and Western scientific management. Confucian thinking subtly but surely guides governments and businesses of the Pacific Rim.

China and Confucius

After having consigned Confucius to the political dustbin during the period of "Cultural Revolution," China now is looking back to her ancient sage for moral and pragmatic guidance as to her own economic renaissance. While facing a tidal rise in entrepreneurship and free-wheeling *laissez faire* economics, China is concerned about a moral and philosophical emptiness that is left unfilled by Marx-Lenin-Mao. By now, it is well accepted that out of the barrel of the gun may very well grow political power, but not so economic wealth. Now, it is not quite enough for the party to have control of the gun, but there is need of something loftier. China's trading partners know this too—and hence a mutual search for a new world view of business relations between East and West that transcends political power and the gun.

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The Need to Reconcile Confucius with the Twenty First Century

It is meaningful and profitable to reconcile the fundamental philosophies of Confucian teachings with managerial practices in the Confucian world. We also need to understand how the Confucian world view can determine the outcome of a business relationship with the Confucian world. Over the thousands of years, the influence of Confucian values on personal conduct has become deeply ingrained and now constitutes a revealed blessing. Confucian values have created a world view distinct from, and as this article will show, yet similar to that of the West. The business practices of the Confucian world are something distinct yet similar to the business values of the Western world.

Confucius Started with Politics

In his own time, Confucius' goal was to teach war dukes to become enlightened rulers of state through the use of personal moral example and superiority. Because Confucius emphasized the importance of stability, order, and respect for a government based on moral supremacy, we saw South Korea, Singapore and Taiwan flourishing under strong governments that drafted plans and carried them out with authority. Japan's success was largely charted by government technocrats who are Confucian in moral values.

With respect to business, the Confucian ethics of responsibility, reciprocal relationships, respect for leaders and ethical superiority have been successfully integrated into the business practices of the Pacific Rim. These countries certainly appear different from those of the Western culture, where cultural pluralism, human rights, individualism, competition and personal success are the defining values. These seemingly different cultures of East and West should be made to complement each other and the way may be through a suitable appreciation of Confucius.

(1) Restoration of Confucianism in Japan

In Japanese companies, management generally follows the Confucian way of "cultivating his own character such that he can govern other men." Public humility is still an essential part of business life for junior employees, even though these younger employees enter work with broader outlooks on life and less devotion to the corporate cause. Confucianism places a more benevolent spin on capitalism within the corporate state. Business leaders try to earn employee loyalty with benevolent policies that include lifetime employment and long-term benefits to promote health and welfare.

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Confucian values as respect for age and authority, a sense of place and self-discipline with enthusiasm for work. There is a quest for restoration of Confucian values in Japanese government and public life. They still believe here that if the government is well-ordered, the people will follow. If not, the people will find other ways to realize their ambitions.

(2) *Singapore's Confucian values*

In recent years, political leaders like Singapore's retired Prime Minister, Lee Kwan Yew, and the Chief Executive of Hong Kong, Tung Chee-hwa, have spoken glowingly of "Asian values," by which they mean Confucianism. Under the 30-year rule of Li Kuan Yew, Singapore has been transformed from Sir Stamford Raffles' colonial harbor to a prosperous and enterprising Nation state. Singapore is a country with the potential for full employment and is famous for its virtually zero crime rate. This economically aggressive city-state is a high-tech power of the 21st century.

(3) *Confucius in Late Modernism in South Korea*

South Korea had the world's fastest economic growth in the 70s and currently exhorts "discipline, self-help and cooperation." Its sustained economic growth is also traced to its cultural heritage of Confucius. Even the social and moral climate has changed in South Korea since its opening to the world; Confucian thinking is still prevalent in all fields of activity and thought, and reigns over all strata of society. The Korean version of Confucianism—a system of thought, ethics and education—promotes a rigid respect of ancestry, reverence of superiors and the firm belief that harmony emerges from submission to the orderly ritual.

(4) *Hong Kong*

Hong Kong has historically been the place where East met West. Free trade and all that is associated with *entrepôt* are the hallmark of Hong Kong. As a former British colony, it nonetheless is part of the Confucian world as a result of the presence of the Chinese. In Hong Kong, many of the leading Chinese-owned corporations and trading houses adhere to fundamental Confucian thinking. The Confucian world view of these corporations promises to have a deep impact on how China itself will view international trade.

(5) *Taiwan*

Taiwan, while being a political Doppelgänger, is a solid bastion of free enterprise and a major force in international trade. Its basic values are classic Confucian and its

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people, through the diligent application of such values, have built a dynamic and prosperous economy.

(6) *Vietnam*

It should come as no surprise that the moral and social fabric of Vietnam is cut from the Confucian cloth. The manifested goal of contemporary Vietnam is to re-integrate itself into the international community, and a promising path is through international trade. Confucius will serve Vietnam well in this respect.

(7) *Malaysia*

Malaysia is somewhat set apart from the Confucian world because the Chinese population constitutes a minority and its official religion is Islam. However, Chinese companies and businesses occupy a major position in the Malaysian economy, and the contributions of Confucian values to Malaysian society are recognized by all Malaysians.

(8) *China*

Economists project that China will be one of the world's four largest economies by the year 2010. If China's economy were to be combined through open trade with that of Hong Kong and Taiwan, the financial implications would be even more impressive. Although the Confucian system is not now in official vogue in China, it still forms the underlying basis of most business practices in China and holds the potential for future domination of business thought.

After having its value system thrown into chaos by the Cultural Revolution, China seeks to rebuild some basic values into Chinese business management. The goal is to continue economic reform and to continue to move from a planned economy to a market economy. While the ethical prescriptions associated with Confucius do stress hierarchy, obedience to authority, and social order, they also reflect a deep respect for morality and humanism. Chinese managers today have begun to rethink the Confucian classics carefully, and to link them to the modern concept of management. Re-interpretations will provide new meaning to these teachings so as to keep them at a par with Chinese modernization.

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Transforming Confucius for Modern Business In China

The quality of a business organization depends on the value system of a culture. The chances of successful relationships between business partners also rest on the value system of a culture. We must indicate that managers should remove the negative influences of Confucianism in management. For example, the “Rule by Humanity” (Ren Zhi) is a major issue for management in China. Over the years, there has been a long debate between Confucian scholars, who advocate “rule by humanity,” and Chinese legalists, who advocate “rule by legal authority.” Because of the long domination of Confucianism, rule by humanity has prevailed for the most part, although Chinese legalism very often rears its head as well. Managers today still agonize over the relative importance of ethics and law as tools of management. The problem with business management is that top decision makers have unlimited powers, but a mechanism ensures that these powers are not abused.

Management According to Confucius

The direct way to begin to study the impact of Confucius on modern business is to start with the basics. Fortunately, the basic works of Confucius are concise and are conveniently compiled into three relatively short treatises known as (1) *The Confucian Analects*, (2) *The Great Learning* and (3) *The Doctrine of the Mean*. The rest of this article presents and examines key concepts out of these three books, with primary attention to the *Analects*.

Confucius Viewed Human Nature to Be Good

Perhaps, the most important principle to understand of the Confucian world view is that Confucius held humans to be fundamentally good. Confucius taught that

Man is born for uprightness. If a man loses his uprightness and yet lives, his escape from death is because of mere good fortune.

(*Analects*, Book VI, Chapter XVII)

From this premise is built the Confucian moral hierarchy.

Confucius and Respect for Learning

Confucius is best remembered as a great teacher of moral wisdom. Perhaps, in his own shrewd and somewhat self-serving way, he taught his students to revere learning. Confucius held:

At 15, I had set my heart on learning

At 30, I firmly took my stand

At 40, I had no delusions

At 50, I knew the decrees of Heaven

At 60, my ear was willing to receive the truth

At 70, I could follow what my heart desires

without trespassing on what was right.

(*Analects*, Book III, Chapter IV)

This passage also established the superiority of wisdom through the attainment of age. (Confucius lived to be 73.) To this day, age is given an honored place in the Confucian world, including within business organizations, as well as governments.

Practicing the Learning

Respect for the wisdom of Confucius is enhanced when his students said this of the sage: “When our Master comes to any country, he does not fail to learn about its government.” (*Analects*, Book I, Chapter XI) Confucius himself emphasized that

I do not enlighten anyone who is not eager to learn, nor encourage anyone who is not willing to practice his ideas.

Thus one must practice what one teaches and be true to one’s beliefs.

The Golden Rule of Confucius

The Golden Rule of Confucius is similar to the concept of the Western Golden Rule: “Do unto others what you would have them do unto you.” Confucius taught:

Do not impose on others what you do not wish imposed on yourself.

(*Analects*, Book V, Chapter XI and *Analects*, Book XV, Chapter XIII)

This Golden Rule can be used in business to determine whether a proposed action is good or not. Confucius said:

To judge of others by using yourself as an analogy is the way to achieve Ren

(*Humanity*).



It is more a means for thinking out a manager's obligations to others: he or she should use himself or herself as an analogy when determining what would be beneficial to others. What the manager perceives as beneficial to himself or herself, may reasonably be held to be beneficial to others; what the manager perceives as harmful to himself or herself, may reasonably be held to be harmful to others. The idea behind the Golden Rule has been an ethical beacon to steer the practitioner to right business conduct.

The Doctrine of the Mean

Confucius said:

Let the states of equilibrium and harmony exist in perfection, and a happy order will prevail throughout heaven and earth, and all things will be nourished and flourish.
(*The Doctrine of the Mean*, Chapter 1.5)

The Doctrine of the Mean (Zhong Yong) is the way in which one should make decisions in life. It forms the underlying principle of Confucian teaching. The doctrine focuses on the Mean or middle path of human thought and action for a person to observe. The best decision is always the middle between unworkable extremes. Taking the middle road as Confucius said would guide one to the way things should be done. It is important for a manager to balance his words with his actions. In action, he should always adhere to the Mean and treat the Mean as the perfect virtue. The meaning of this doctrine is to avoid extremes, whether it is in thinking or practice. A wise manager should learn to maintain the balance between the good and the bad, rather than striving to eliminate the bad and cultivate the good. He should understand the extremes but practice the moderation.

Managing One's Life and Career

Confucian tradition emphasizes that a man's career should begin with self-cultivation (Xiu Shen), regulating his own family (Qi Jia), governing the country (Zhi Guo) and establishing peace throughout the world (Ping Tian Xia) (Pax Confucius).

Appropriating self-cultivation, Confucius determined both the goal (Jun Zi) and the means (Ren) to achieve it. As to Jun Zi, Confucius uses it to denote a morally superior man. This virtuous character is realized in the individual's pursuit of Ren (humanity).

To be a successful manager, one should improve self first and then carry out one's duties to others. An effective manager should pay special attention to improving oneself—to showing commitment through self-discipline and self-

restraint. A moral manager must always serve as a living model of the virtuous man. Be strict with yourself, but be benevolent towards others. A good business is based on efficient leadership and harmonious human relations. Both manager and employees are expected to find harmony, not conflict, within the Confucian code. The success of an organization is limitless if the manager often thinks of employees and keeps a low self-profile, as the primary goals.

Loyalty (Zhong) and Filial Piety (Xiao)

To Confucius, faithfulness and sincerity to friends are first principles. As he said:

Hold faithfulness and sincerity as first principles.
Have no friends not equal to yourself.
(*Analects*, Book I, Chapter VIII, 2-3)

Confucius was fond of reminding his students that loyalty began within the self:

I daily examine myself on three points: whether in transacting business for others, I may have been not faithful; whether in dealings with friends, I may not have been sincere; whether I have not mastered and practiced the instruction of my teacher.
(*Analects*, Book I, Chapter II.I)

Zhong is the loyalty to the state. Xiao, filial piety, is the loyalty within the family. In terms of the development of the character of the human being, the most fundamental practice is that of Xiao, which means the love of parents for their children and of children for their parents. Confucius believed that if people cultivated this innate tendency well, all other natural forms of human goodness would be positively affected by it. Filial piety permeates all virtues, which becomes the driving force behind moral being. Family accomplishments are rated higher than individual accomplishment. If a man really serves his parents filially, he will become loyal to the country.

This moral value has established the employer's role as a guardian to his or her employees. Confucius taught:

Go before the people with your example and work hard for their affairs.

A wise manager should learn to maintain the balance between the good and the bad, rather than striving to eliminate the bad and cultivate the good.

Confucius on Control

To the employer, having intelligent people with a low sense of morality is much more harmful than leading a group of the mediocre. Installing a comprehensive control system will neither replace ethical values nor make people more ethical. It is essential to create and cultivate a set of moral values. A great manager should possess the highest moral sense and play the leading role in creating moral corporate culture. If he or she does not act with morality, the whole organization will not gain the confidence and trust of its people as well as its business counterparts.

Further, Confucius taught that people are intrinsically good and are guided by a sense of shame. For these reasons, there is really no need for strict controls, such as the use of punishment:

When people are led by laws and uniformity sought to be given them by punishments, they will try to avoid the punishment, but have no sense of shame. If they are led by virtue, and uniformity be given them by the rules of propriety, they will have the sense of shame and moreover will become good.
(*Analects*, Book II, Chapter III)

Confucius has an opinion on capital punishment for he said:

What do you say about killing the unprincipled for the good of the principled?

Sir, in carrying out your government, why should you use killing at all?

Let your manifested desires be for good and the people will do good.

(*Analects*, Book XII, Chapter XIX)

This is a reiteration of the belief that humanity is good.

For business success in Confucian societies, executives have to nurture and maintain the guanxi relationship through continuous, long-term, mutual interests and reciprocity.

Confucius on the Law of Contracts

In Western business, there is the greatest reliance on the law of contracts. Indeed the sanctity of a contract is paramount, and the law is expected to severely enjoin and punish a breach of contract. From experience, Western business may have gained the perception that the Chinese may have a more flexible view of a contract, but not so Confucius. He said:

When agreements are made according to what is right, what is spoken can be made good.

When respect is shown according to what is proper, one keeps from shame and disgrace.

(*Analects*, Book I, Chapter XIII)

However, Confucius has expressed an aversion to lawsuits:

When hearing a lawsuit, I am like any other tribunal. What is necessary, however, is to cause the people to have no lawsuits.

(*Analects*, Book XII, Chapter XIII and *The Great Learning*, Chapter IV)

Even so, in the Confucian scheme of good people, justice still must prevail:

What do you say that injury should be repaid with kindness?

With what then is kindness to be repaid?

Therefore repay injury with justice and kindness with kindness.

(*Analects*, Book XIV, Chapter XXXVI)

Five Virtues of Leadership

Confucius said:

If you behave with courtesy, then you will not be insulted; if you are generous, then you

will win the multitude; if you are of good faith,

then other men will put their trust in you;

if you are diligent, then you will be able to command others.

In the Western societies, the hierarchical organization style is changing to a system in which employees take responsibility for their own actions, and leadership comes from employee-driven teams. However, the hierarchical system still dominates companies in Confucian societies, tempered by the morally superior leadership. In the business world, an executive, even the highest officer, is but a caretaker of the corporate well being.



A student once asked Confucius: “What qualities must one have to be called an officer?” The Master answered:

One who knows a sense of shame and when sent to any quarter will not disgrace his prince’s commission.
(*Analects*, Book XIII, Chapter XX.I)

To Confucius, the qualities of an effective leader can be divided into five well recognized virtues:

- (1) Ren (benevolence, humaneness, humanity, love, sympathy, goodness, and kindness);
- (2) Yi (righteousness, responsibility, or duty);
- (3) Li (propriety, manners, ritual, etiquette, reverence or proper conduct);
- (4) Zhi (wisdom or cleverness); and
- (5) Xin (sincerity, honesty, good faith or trustworthiness).

1. Benevolence (Ren): Ren is the highest Confucian virtue. Confucius taught: “Ren is to love people.” It is the inner ideal and substantial goodness of the human being. To practice Ren in business is to love without discrimination. Love is an important principle that permeates all human behavior. A wise manager does not take advantage over the weak nor the less intelligent. He should pay full attention to all people in the organization without discrimination and distinction.

2. Righteousness (Yi): Being attuned to righteousness allows people to do the right thing in the proper situation, to give each person, place and thing its proper due. For business, management should be based on the principle of Yi. In this way, a business can expand long-term profits while eliminating the destructive consequences of illegal profit seeking and unfair competition. Such principles have given birth to a new East Asian industrial civilization. Confucian world nations such as Japan, Singapore and South Korea have borrowed the basic ideas and reinterpreted them for current conditions.

3. Propriety (Li): Li is the outward expression of Ren or the functioning of Ren in the manifest world rather than as just an idea. It is the greatest principle of coordinating interpersonal relationship. Confucius believed that Li is the fundamental principle for harmonious relationships among family, social and political hierarchies. When people conduct themselves by Li, social harmony is achieved.

One basic tenet of Confucianism stresses the importance of an individual’s place in the hierarchy of social relationships. Confucius said:

There is government, when the prince is the prince, and the minister is minister, and when the father is father and the son is son.
(*Analects*, Book XII, Chapter XI.2)

Individuals are part of a system of interdependent relationships, not isolated entities. Confucius gave the Five Relationships as the idealized model for the feudalistic family, society, and government:

- (1) Ruler and minister–benevolence in ruler and loyalty in ministers and subjects;
- (2) Father and son–kindness in the father and filial piety in the son;
- (3) Elder and younger brothers–nobility in the elder brother and respect in the younger;
- (4) Husband and wife–righteous behavior in the husband and understanding in the wife; and
- (5) Elder and junior–humanness in elders and deference in juniors.

In the business environment, Li is almost synonymous with ethics. It means proper behavior in general, including proper speech and body language according to status, age and sex in each business interaction. It is important for a manager to have harmonious relationships with others, which help to reduce conflicts and help to ensure the smooth running of a business. An effective manager needs not only to behave ethically, but also to diffuse and inculcate Li systematically among the people.

4. Wisdom (Zhi): Confucius especially emphasized education. Effective managers should always view themselves as life-long learners. They should commit strongly not only to learning from self and others, but also to sharing their knowledge and experiences with their followers without selfishness. Learning is the common denominator that distinguishes performance among individuals, companies, industries or even economies. Educational achievement obviously improves the quality of people, the technological and managerial competence, the industrial productivity and the global competitiveness of an economy.

5. Sincerity (Xin): Xin means to make one’s words conform to one’s deeds. Sincere affection in relationships will strengthen networking. Xin is also the foundation for fruitful relationships that last between individuals, families, businesses. An effective leader can use Xin to reinforce his decisions pertaining to human interactions and business dealings. He can use Xin to expand his business network and gain the confidence and support of its customers as well as other businessmen.

Managing Interpersonal Connections

As a pragmatic matter, interpersonal connections or relationships, not organizational entities, play a key role in the Confucian world (e.g., as China, Japan, South Korea, Hong Kong, Taiwan, Singapore and their overseas communities). These connections are known in Chinese as guanxi (pronounced guan-shi), in Japanese as kankei and in Korean as kwankye.

There are two types of guanxi. One is based on kinship, referring to members of a person's immediate and extended families. The other is based on common experience, such as graduating from the same school, serving in the same military unit or working previously in the same organization. In the reality of the Confucian world, guanxi is an important personal asset.

Guanxi as the Art of Reciprocity in Business

Guanxi, the art of reciprocity in business, requires the establishment of a connection between two independent individuals to enable a bilateral flow of personal or business transactions. To ensure the continuation of such a relationship, both parties must derive benefits from the transaction. For business success in Confucian societies, executives have to nurture and maintain the guanxi relationship through continuous, long-term, mutual interests and reciprocity. Confucius himself suggested reciprocity as the answer to the question "Is there one word which may serve as the rule of practice for all one's life?" He answered:

Is not Reciprocity such a word?
(*Analects*, Book XV, Chapter XXIII)

As can be seen by a reading of Confucius, his teachings have many things in common with basic principles of economic intercourse and may provide an invaluable key to doing better business in the Pacific Rim.

Guanxi as a Key for Business Success in the Confucian World

As the strong sense of hierarchy still permeates every sector of these societies, including business, managers must understand the importance of personal connections. Guanxi with the appropriate authorities or individuals is more important than technological expertise, even though a company may have a more competitive price and the better product or service. For example, the Chinese authorities forced McDonald's to relocate in Beijing in order to accommodate real estate development by Hong Kong billionaire Li Ka Shing. The latter is well connected to high-ranking officials in China.

In addition to the scientific approach for entry strategy and maintaining long-term business success in Confucian societies, such as competitive prices, product differentiation, technical competence, and high-quality services, managers should put guanxi in the top priority of business operations. They need to work closely with local business associates, become familiar with local negotiation style, choose suitable business strategies and commit to long-term cooperation. It is important to understand the local policy, but it is more important to understand its practice and business custom. Either guanxi alone or a modern business approach alone, is not enough to guarantee long-term success in China and elsewhere in the Confucian world.

To build strong guanxi with the right persons is crucial to attaining business success in China. Managers should identify the right parties to establish connections with and maintain guanxi over time in the right direction. Guanxi is a gate that can be open or shut.

Confucian teachings and values can be used to open the gate. Focus on (1) clarifying the objective in doing business overseas as the creation of value for customers as well as company development (Ren); (2) balancing your business principles with local practice in personal relationship building (Yi); (3) offering proper rewards to your partners (Li), such as gift-giving, entertainment at lavish banquets and overseas trips; (This is the quickest way to build guanxi relations in China.) (4) selecting the right partners and nurturing long-term and mutual business interests according to your organizational objectives (Zhi); and (5) cultivating a strong relationship with your right partners, with sincerity (Xin). It is hoped that the restoration of Confucian values will in the future help elevate the age-old practice of guanxi onto a more ethical and level plane.