

Is Confucianism Good for Business Ethics in China?

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ABSTRACT. This article examines whether and to what extent Confucianism as a resilient Chinese cultural tradition can be used as a sound basis of business practice and management model for Chinese corporations in the twenty-first century. Using the core elements of Confucianism, the article constructs a notion of a Confucian Firm with its concepts of the moral person (*Junzi*), core human morality (*ren, yi, li*) and relationships (*guanxi*), as well as benign social structure (harmony), articulated in corporate and organizational terms. The basic character of the Confucian Firm is described, and its philosophical and cultural foundation is critically assessed with respect to its moral legitimacy and relevant to today's China. China's recent Corporate Social Responsibility (CSR) development is a high profile response to global business ethics concerns. Efforts have been made to emulate and develop good business practice fashioned in CSR norms and visions. The so-called "human-based" and "virtue-based" business practices rooted in local cultural heritage have been touted as a Chinese response to this problem. This investigation is particularly relevant in the context of the increasingly prominence of the Chinese corporations (China Inc.) in the wake of the rise of China as a global power. How relevant is Confucianism to the building of a modern Chinese corporation that is willing and able to practice reasonable norms of business ethics? The findings of this discussion, which include the organizational implications of the Confucian familial collectivism, have implications for other Chinese communities (Taiwan, Hong Kong, and Singapore) where Confucian tradition is endorsed and practiced.

KEY WORDS: Confucianism, familial collectivism, Confucian Firm, Greater China, principled ethics, virtue ethics

This article examines whether and to what extent Confucianism as a resilient Chinese cultural tradition can be used as a sound basis of business practice and management model for Chinese corporations in the twenty-first century. Using the core elements of Confucianism, the article constructs a notion of a Confucian Firm with its concepts of the moral person (*Junzi*), core human morality (*ren, yi, li*), and relationships (*guanxi*), as well as benign social structure (harmony), articulated in corporate and organizational terms. The Confucian Firm as an ideal type construction is largely a virtue-based corporation as it is informed and constituted by Confucianism which, deep down, is a virtue-based ethics. The basic characters of the Confucian Firm – authority structure, social interaction pattern, decision-making process, leadership, stakeholder relationships – are described. The firm is critically assessed with respect to its moral legitimacy and relevance to today's China.

As China has become the factory of the world, Chinese factories and companies have been under increasing pressure from the global community and NGOs to comply with universally accepted rules of business ethics in labour issues, environmental responsibilities, and anti-corruption practices, among other things. China's recent Corporate Social Responsibility (CSR) development is one conspicuous form of its response to this demand. Efforts have been made to emulate and develop good business practice fashioned in CSR norms and visions. However, CSR as a globally promoted concept owes its origin to Western corporate experience. Directly transporting CSR as

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practiced by many multinationals or Western companies to Chinese corporations may not produce a good cultural fit and may render the whole CSR development ineffective. How to integrate CSR with Chinese culture becomes strategically important for corporations that take business ethics seriously. Today, the so-called “human-based” and “virtue-based” business practices rooted in local cultural heritage have been touted as a Chinese response to this problem. Though there seem to be overlaps between the “human-based” or “virtue-based” corporations with Confucian Firm, the former concepts are in general unsystematic and often vague in their details. In contrast, the concept proposed in this article is systematic and richer in content, making it more effective to make the critical assessment of its relevance and legitimacy. The Confucian Firm is to be assessed against the reasonable universal norms based on the concept of human rights.

This investigation is particularly relevant in the context of the increasing prominence of China Inc. in the wake of the rise of China as a global power. What would a Chinese corporation conforming to both universal ethical norms and building on its ethical resources be like? How relevant is Confucianism to the building of a modern Chinese corporation that has a genuine commitment to reasonable norms of business ethics? The result of this discussion may have implications for other Chinese communities (Taiwan, Hong Kong, Singapore, and South Korea) where Confucian tradition is endorsed and practiced.

In what follows, I lay out the core philosophical elements of Confucianism, and examine the Confucian Firm as manifestations of these elements. Then, I assess them against the norm of human rights for their relevance and legitimacy.

Confucianism – the core elements

Confucian ethics is basically humanistic, obligation-based, and collectivistic in nature (Chan, 1963; Ip, 1996, 2004).¹ It is humanistic in the sense that its primary concern is the human condition, and is deeply this-world-oriented. Transcendent issues are concerned only to the extent that they affect the well-being of human society. It is collectivistic because it places the importance of collective values

and interests over and above individual values and interests. By extension, social relationships and their harmony are of utmost importance in human society. The family is seen as the most revered and an almost sacred form of human relationships and institution (Cheng, 1944). In this light, Confucian ethics entails *familial collectivism*. It is obligation-based because the morality of human conduct is primarily articulated in terms of obligations and obligation exchanges (Yang, 1957), which require an extensive practice of virtues. Confucian virtues are human moral traits that need to be consciously cultivated. Underlying these virtues is the human inborn moral capacity of compassion (*ren*) and sense of rightness (*yi*), and reciprocity (*shu*).

The core of Confucian ethics is constituted of three elements – *ren*, *yi*, and *li* that define what is *morally acceptable* in human society. *Ren* is a *capacity* of compassion or benevolence for fellow humans. It is essentially expressed in social relationships. Etymologically, the Chinese word “*ren*” is structurally made up of the words “human” and “two,” thus highlighting the essentially social embeddedness of *ren*. The exercise of this capacity results in *ren* acts and conducts, as well as mindsets and moral sentiments. In the language of Confucianism, these compassionate acts, sentiments and conducts are also seen as the acts of *de*, Confucianism virtues. In this sense, *ren* is also a *de*, albeit a mega-virtue from which other virtues are derived. Of equal importance in moral status is *yi*, which is basically a sense of moral rightness, a capacity to discern appropriateness and the right direction in acts, relationships, and other human matters. *Ren* and *yi* often work in unison to define morality and to guide actions. Like *ren*, *yi* is another Confucian mega-virtue. (*Yi* occupies a central position in the doctrines expounded by Mencius.²) *Li* represents the many etiquettes, norms, and protocols in both personal and institutional lives. The legitimacy of *li* is based on *ren* and *yi*, and only under this condition are people obligated to follow it. It means that people do not have the obligation to observe a *li* which violates *ren*. Though *li* is not in itself a virtue, *observing li* is a basic virtue.

The quintessence of *ren*, the capacity of compassion was articulated by Confucius as *zhong shu* – an act and attitude of dealing with people. *Zhong shu* is, in effect, the Confucian formulation of the Golden Rule. There are two senses of *zhong shu*. The weak

sense says that people should not do to others things that they do not want others to do to them. There is, however, a strong sense of *zhong shu* that goes beyond what is prescribed by other varieties of the Golden Rule in other cultures. To practice *zhong shu* in the strong sense means that one is obligated to help others to develop morally in the process of developing one's moral self, which is seen as a major life goal of a person. This means that moral development and flourishing should not be done in isolation but in close synchrony with others. Thus, *zhong shu* requires people to co-develop their moral selves together with others, to morally co-flourish themselves with others. Thus seen, *zhong shu* entails a positive act of moral engagement in others' moral welfare and development.

Together, *ren*, *yi*, and *li* form a moral core that spawns and sanctions an intricate web of behavior-guiding moral virtues that effectively serve as a normative system governing the ethics of an individual's personal and social lives. In addition to the three mega-virtues, the virtues of wisdom and trustworthiness are equally important in the Confucian moral corpus. Indeed, traditional Chinese culture and modern Chinese communities deem *ren*, *yi*, *li*, wisdom, and trustworthiness as the five cardinal virtues of humanity. In addition to these, *Junzi* is another crucial component of the Confucian moral system.

Junzi, the exemplary Confucian moral person, is envisioned to possess all the cardinal virtues espoused in Confucianism. He symbolizes the virtuous of the virtuous. In addition to possessing the five cardinal virtues, *Junzi* also has other virtues, and is ready and able to execute virtuous acts relentlessly and consistently over his entire life. People, especially the intelligentsia and the ruling elites, are urged to emulate *Junzi* in thought and deed, and continuously pursue a life exemplified by *Junzi*. The following is a list of attributes of *Junzi* articulated in the *Analects* by Confucius himself³: righteous, diligence in actions and duties, acting before speaking, prudence in speech and words, action aligning with words, demonstrating filial piety to parents, displaying brotherly respect for brothers, associating with men of moral principles, loves learning, loves others, broadminded and non-partisan, takes virtues seriously, observes rules of propriety, harbors good will toward others, accommodating, dignified but not

proud, courageous, steadfast, self-reflective, self-motivated, fair-minded, *zhong shu* – observe and exercise the Golden Rule: do not do to others what you do not want others to do to you, has a clear moral sense, loyal, faithful, serious, principled and consistent (non-arbitrary), open minded (not dogmatic), flexible (not obstinate), non-egotist, tolerant, reciprocates, compassionate, frugal, hardworking and tenacious.

What are the major characteristics of a *Confucian person*? Under familial collectivism, a person is essentially social in nature. The nature of a person's self is defined and constituted by the bundles of his or her social relationships in the world. With his or her socially embedded self, a person's identity and place in the world are to be understood through his or her social attachments and positions in the social hierarchy. The implication of this conception is clear. Due to its socially embedded nature, a person's interests, goals, and well-being have to be socially shaped, nurtured, and constrained by the relationships the person is having. His or her social bonds are the sources of his indebtedness and obligations that he or she should fulfill with regard to these relationships. In such a light, an individual is essentially a social being, there is no individual in the egoistic sense as conceived in some versions of the liberal thinking in the West. This concept of a relationship-based person aligns well with the Confucian virtue of *ren* which is essentially relational and social. It also seamlessly dovetails with the family as the person's nurturing collective entity. Thus, a person's relational self fits comfortably with the collectivism and *guanxi*, a modern day version of Confucian relationalism.

A moral person is urged to adopt a goal and pursue a life constrained and directed by virtues. A person's life involves several progressive phases – rectifying the mind, cultivating the self, taking care of the family, governing the state well and pacifying the world (of nations). Confucianism prescribes a relentless pursuit of moral cultivation of the self that continuously does good for the state and nations. The perfection of one's life cannot stop at perfecting one's own self, but should involve perfecting the lives of others. Therefore, Confucian moral development involves both the internal moral development and external moral engagement in a continuous process of progressive successions and elevations. A robust moral life should connect the

moral self with the lives of others in a benign and harmonious manner.

Harmony, a cardinal value of Confucianism, is seen as the primary goal of personal and social life. People should strive to achieve harmony with their own selves, and with lives of others. Harmony is the basic and overlapping goal of familial, organizational, communal, and political lives. Practicing *ren*, *yi*, and *li* and exercising virtuous acts are sure ways to achieve harmonious personal and interpersonal lives. Family and clan patriarchs treating their family members with virtues produce harmonious families. Kings and princes practicing *ren-yi-li* and implementing virtue-driven policies create harmonious relationships with their subjects, thus achieving harmonious governance. Undertaking virtuous acts and policies between states help to develop a harmonious inter-state environment conducive to peace and prosperity for all humanity.

In order to complete the analysis of familial collectivism, we need to understand *filial piety* and its implications for social relationships. Over the millennium, in traditional China and today's Chinese communities, the Confucian virtue of *filial piety* is held in the highest regard. In the old days, family patriarchs demanded filial piety from their sons and daughters. Emperors, rationalizing their legitimacy by the mythical "mandate of heaven," ruled the state like a family. As a result, emperors were often called "Father Kings," demanding from their subjects' absolute loyalty, the political variant of filial piety. This is made explicit in the *Classics on Filial Piety*: "To serve the emperor with filial piety is tantamount to loyalty." Also, "Filial piety is fundamental to *ren*" has been accepted as a general Confucian truth. Chinese people used to acknowledge that filial piety is the first among all virtues of human relationships. Having this paramount importance in both family and the state life, filial piety defined and dominated all other human relationships in traditional China. In addition to filial piety is a hierarchical human relationship, which is natural within a family. However, when filial piety was elevated or "ordained" as an all-encompassing virtue, it transfers legitimacy to its underlying hierarchy (Hamilton, 1990). The encouraged and pervasive practice of filial piety has nurtured and sanctioned a *hierarchical* structure of human relationships in society, which undermines the equality of persons.

To see the *familial* side of Confucianism, we need to understand the so-called "five cardinal relationships" (*wu lun*) in Confucian society: emperor-officials, father-son, older brother-younger brother, husband-wife, and between friends. Noticeably, they are both hierarchical and familial in nature. Even the relationships between friends are conceived as a kind of relationship between brothers. No matter how complex the social relationships are, they are primarily familial. This is fully reflected in the Chinese popular saying: "people are brothers within the four seas." Everyone is, at least in theory, either a member of a big family, attached by blood-ties or some other thing. However, there is big gap between how people treat real family members and non-family members, and the radius of trust is strictly confined to those with familial attachments (Kao, 1996).

Hierarchy in loving family relationships may be benign. However, in less than loving situations, it can be a source of coercion and domination. When hierarchy is aligned with prescribed authority, domination and subjugation may be its natural consequences, as has been the case in many Chinese families throughout history from feudal eras to modern times. When vertical relationships are regarded as *the* relationship to be in people's worth is a function of their position and status – those at the top possess more worth than those at the bottom. Hierarchy thus entails a status-based human relationship. The interaction and exchanges between the top and the bottom of the vertical relationship is typically *asymmetrical*, in stark contrast to what is prescribed in *zhong shu*. For example, emperors, fathers, husbands, etc., being in the dominating position, could demand submission, compliance, and obligations from subordinates, sons, wives, etc., but were not obliged to reciprocate in kind. There are two kinds of reciprocity – symmetrical and asymmetrical. The kind of reciprocity involved in the obligation exchanges between the cardinal Confucian social relationships is basically *asymmetrical*. Obligation exchanges are asymmetrical when obligations being exchanged are unequal in quantity and kind. This is so as a result of embedded hierarchical relationships in the exchange. Take the exchange between a superior and a subordinate as an example. Due to the hierarchy of unequal power, the superior is obligated to lead, advise, and guide the subordinate, but the subordinate is not obliged to

reciprocate the same acts to the superior. On the other hand, the subordinate is obligated to obey the superior, but this obligation is not reciprocated by the superior. In contrast, when reciprocity is symmetrical, what is exchanged is equal in quantity and kind. For example, equal friends reciprocate with trust, tolerance and support. Symmetric reciprocity occurs in equal relationships. Confucian reciprocity, in general, is *asymmetrical* as a result of the embedded hierarchical human relationships that Confucian sanctions and supports. Indeed, far from being benign, hierarchy when meshed with authoritarianism breeds a domination-subservient social structure that is harmful to the individual's dignity and autonomy.

The nature of a Confucian Firm

I use the core Confucian elements to construct a Confucian Firm. The idea of a Confucian Firm is not a descriptive notion, but the result of a *rational reconstruction*, a methodological practice commonly used in the theoretical investigation of certain object of inquiry in social sciences and philosophy. What is rationally reconstructed as an object of inquiry does not necessarily exist in the real world. Only the core essentials of the object under investigation are represented in the reconstruction. A rational reconstruction is similar to Max Weber's concept of an *ideal type* (of an object). As an ideal type, a Confucian Firm ideally depicts only its constitutive core elements, and leaves out secondary qualities or peripheral features. That is, it does not pretend to empirically describe the full set of empirical characteristics or things related to a Confucian Firm in the real world. A rationally reconstructed Confucian Firm may entail many empirical varieties in the real world, all sharing the core elements but having differential features attached to different varieties. A one-many relationship exists between the ideal type and its many empirical manifestations. The following are the core principles of a Confucian Firm:

1. The goals, strategies, and practices of the firm should be defined by the principle of *ren-yi-li*.
2. The structure, processes, and procedures of the company should confirm to *ren-yi-li*.
3. The major stakeholders should be treated with *ren-yi-li*.
4. The leaders should conform to the thoughts and deeds of *Junzi*.
5. Members of the firms are obligated to be virtuous and act in accordance with *ren-yi-li*.

Some brief explanations of the above principles are in order. Principle 1 has two senses. In the strong sense, the core Confucian *ren*, *yi*, and *li* elements define and are constitutive of the goals, strategies, and practices of a firm. This means, *ren*, *yi*, and *li* frame vision, shape, and direct corporate goals and strategies, and guide and prescribe practices. Profit-making is accepted as a legitimate goal *insofar* as it is consistent with *ren*, *yi*, and *li*. Confucian corporate leaders would not reject profit *per se*, or regard profit itself as sinful or unethical, but would put it under the moral constraint of *ren-yi-li*. As well as accepting morality-constrained profit seeking, they would also accept other legitimate goals of the corporation, including doing good for the community and society. On one occasion, Confucius discussed the contrast between *Junzi*, the superior moral person, and ordinary people focusing on their attitudes to personal interests. While ordinary people are keenly aware of self-interest, *Junzi* is consciously aware of rightness, and is inclined to choose rightness to guide behavior. The conduct of ordinary people, as observed by Confucius, is driven by self-interest. However, the person of superior morality uses the morality of rightness to constrain personal self-interest, and selects only those that satisfy the demand of rightness. In this sense, *Junzi* does not embrace naked self-interest, but that of *yi*-guided or *yi*-constrained self-interest. The celebrated *Hui* merchants, who dominated the commerce scene in Imperial China during the Ming and Qing period (circa fifteenth to seventeenth century), were famous followers of this belief. As Confucian merchants, they debated the issue of the relationship between profit and morality seriously. The general conclusion they arrived at is this: they did not reject profit, but defined its acceptability within the context of *yi*, moral rightness. They affirmed that when constrained and guided by *yi*, profit is morally legitimate. The weak sense of the principle requires that the goals, strategies, and practices to be compatible with *ren*, *yi*, and *li*. Likewise, the organization structures and processes have to be consistent with

ren-yi-li. This means, the power structure, cooperative relationships, decision making, communication and management processes, among others have to be informed by and consistent with these moral concepts.

The Confucian Firm would treat its major stakeholders – shareholders, employees, customers, suppliers, communities, and government, as well as the environment with compassion and rightness. For example, it would provide fair salaries and wages, and a safe and healthy work environment for its employees, deal honestly with its customers in delivering goods and services, reciprocate benefits to the community, be a law abiding corporate citizen, help promote social good and be protective of the environment. Leaders and people in positions of authority should emulate *Junzi* in conducting a virtuous corporate life, and exercising virtuous leadership. The leaders should continuously morally improve themselves and strengthen and practice the set of *Junzi*-defining virtues (*ren*, *yi*, *li*, wisdom, courage, etc.), while setting good examples for others to follow. Leaders would also encourage other internal members of the corporation to strive to develop and practice the Confucian virtues in their cooperative working life with each other, and in treating external stakeholders. Leaders would adopt and utilize the principle of *zhong shu* to manage relationships with all other stakeholders.

The Confucian Firm is essentially a virtue-based, or a *de*-based firm. People's virtues (*de*) or moral character, not rules and regulations, are the principal driver of moral actions and decisions. This does not mean that there are no rules and regulations in the Confucian Firm. It means that the importance of rules and regulations are secondary to that of virtues in shaping actions and guiding decisions. Rules are invoked only if they can aid and enhance moral actions and decisions. Conflicts are resolved basically by appealing to virtues – virtuous people resolving conflicts in a virtuous way. The Confucian “Golden Rule” indeed, is not a “rule” in the proper sense of the word, but refers to the virtue of reciprocity, or the capacity to reciprocate, as it is a quintessential manifestation of the capacity of *ren*.

In the real world, this set of core principles can help spawn a variety of corporations that exhibit similar key Confucian characteristics, and thus broadly be labelled as a “Confucian Firm.” In other

words, there is no one single form of a Confucian Firm, but a variety of Confucian Firms sharing core elements.

What being a Confucian Firm entails

The Confucian Firm has other major features that have to be assessed to appreciate the implications of familial collectivism in the corporate context (Ip, 2000). The features to be examined below include collectivism, particularism (affectionism), paternalism, and authoritarianism (Farh and Cheng, 2000; Smith and Wang, 1996; Westwood, 1997). These features become more conspicuous when the Confucian ideas are applied to the real world. Indeed, it is through their application that helps us to see more critically the full nature of the Confucian Firm, and to throw into sharper focus some of its inherent weaknesses and difficulties.

Collectivism regards the interests of the collectivity or group as the most important concern, and places collective interests above individual interests. The single most important collective entity is the family. Thus, family interests overshadow its members' interests. Family goals dominate and dictate members' goals. Members should subordinate their interests and goals to family goals and interests. If a conflict arises, members should modify or abandon their interests and goals to protect and maintain the interests and goals of the family. Members should think and act in the best interests of the family and strive to perpetuate and strengthen its interests in all times. There are no individual interests independent of or separate from the family interests. Both should be in good alignment with each other to achieve and maintain harmony. Individual interests and goals are to be fulfilled only through the fulfillment of goals and interests of the family or group to which he or she belongs. Individual well-being can only be realized in and through the realization of the well-being of the group or collective.

Particularism is a practice that is based on people's personal relationships and not on people's abilities or qualifications. In allocating opportunities and benefits, particularism uses personal relationships rather than objective qualities as criteria. For example, in hiring, whether the person has personal relationships with the hirer counts much more than whether the

person is qualified for the job. Closely associated with particularism is *affectionism*, a practice of favoring those who have affective associations or emotional attachments with oneself. As family members are the ones having the closest personal relationship, and having the strongest affective attachments with oneself, thus they are the prime beneficiary of this practice. As a consequence, particularism naturally breeds nepotism and cronyism as family members, friends, and close associates are regarded to have an inherent advantage over others in access to favors and privileges. The pervasiveness of particularism and affectionism in China is evidenced in the widely practiced phenomenon of *guanxi*, (the proverbial Chinese variety of social connection) which is their social and institutional manifestation (Luo, 2007; Yang, 1994). Whether one has the proper or good *guanxi* is perceived to be critical to a company's success in China. *Guanxi* practice indeed can be seen as a crystallization of affectionism and particularism in action. The downside of *guanxi* practices is well known. People use their *guanxi* to gain unfair competitive advantage over others. For example, in Communist China in the 1970s, people used *guanxi* to secure good jobs when there was no free labour market. *Guanxi* was also used in getting good housing and getting access to a bed in a reputable hospital, getting a train ticket during peak season or getting a ticket to a popular football match. As these deals were undertaken under a veil of secrecy (popularly referred to as "dealings through the back door"), they were viewed with disdain by society. However, people did it anyway to further their own interests. Deep into the 1990s, during the so-called "go-go" years of rapid economic development and opening up, local firms and foreign firms invested heavily in cultivating *guanxi* with the authorities by bribing state and local officials to gain advantage over competitors. *Guanxi* helped firms to secure lucrative commercial deals, to win bids for public projects, to obtain favorable loans from state banks. These were done at the expense of competitors who did not have as strong a *guanxi* with the authorities. Thus *guanxi* was, and still is, strongly associated with corruption. (Chu and Ju, 1993; Dunfee and Warren, 2001; Farh et al., 1998; Lovett et al., 1999; Steidlmeier, 1999; Su and Littlefield, 2001; Su et al., 2003) It is clear that using *guanxi* to allocate benefits

and opportunities violates fairness, and is not conducive to efficiency.

Paternalism is a practice that simulates the way a father takes care of his children. It acts on the assumption that the father always acts with the children's best interests in mind, and has the knowledge and capacity to protect their interests. The paternalistic practices with the "father-knows-best" mindset is often executed by disregarding the children's perceived or claimed interests or by overriding his children's freedom to choose. When desirable human relationships are conceived using the family as a model, it is easy to see paternalism as a natural consequence of familial collectivism.

As the familial relationship is seen as the model human relationship, it is also easy to see that parental authority smoothly morphed as authoritarianism to govern all human relationships. The family patriarch at the top of the relationship hierarchy possesses all the powers and authorities to make decisions for the family. With the perceived possession of wisdom, knowledge, and benevolence, he is looked upon as one who provides good advice to the family members in all matters. When the patriarch makes a decision or proffers an opinion, others should obediently comply or oblige. There is no need for consultation and no place for dissent, simply because "father-knows-best." Decision making should be vested in the patriarch, who is the most qualified person to exercise that power. Authoritarianism together with paternalism, however, restricts personal freedom of choice, and hamper a person's chance of developing his or her capacity to make free choices and to think independently. They nurture and engender subservient dependence and slavish submission. Authoritarianism is hostile to personal autonomy and its growth.

Authoritarian paternalism suppresses the autonomy and freedoms of employees as subordinates. It creates in employees a habit of dependence, authority-fearing, and blind submission to authority. It breeds arrogance on those in the position of authority, creating a false sense of their omnipotence. It also nurtures a culture of dominance and subjugation, as well as a culture of sheepish compliance. The latter produces a notorious Chinese "one-opinion-hall" stifling free and open exchanges. This is bad for developing an employee's capacity to think and act freely without fear, and bad for

companies that need honest and candid opinions regarding the company's policies and problems. Apart from subjugating the individual, familial collectivism also creates gender discrimination as the female members of society are given a subordinate position in the social hierarchy. People are not equal in the hierarchy, and males are more equal than females. What kind of harmony will emerge in a firm constituted of the above elements?

Harmony itself is a highly cherished goal for organizations. However, without the safeguard of equality of persons, an employee's interests and rights can easily be suppressed or even sacrificed in the name of a company's harmony. Very often, without an effective mechanism for checking abuses and maintaining fairness, what is touted as organizational interest or collective good is in effect the disguised personal interests of those in authority (Westwood, 1997). In normal circumstances, conflicts within the organization are harmful to harmony and should be handled with care. However, sometimes conflicts and the resulting disharmonies may be the effect of many causes, and may not be detrimental to the well-being of the firm. Reasoned and well-managed conflicts in the form of honest and rational disagreements over policies and issues can signify a healthy condition of the firm as they can help expose deep-seated prejudices and unveil unquestioned assumptions, open up the new ways of thinking and doing things. Similarly, tensions resulting from exposing wrong doings and corruption can help to correct errors and mistakes before they become out of control. However, without a culture of honesty and respect for the person, a firm is unlikely to benefit from free and open debates, which can avert it from degenerating into conservatism, complacency and stagnation. These are the prerequisites of a genuine harmony that a Confucian Firm lacks. Empirical findings in the literature are largely consistent with those problems identified above (Brown, 1996a, b; Hwang, 1984, 1988; Ip, 2000; Li et al., 2000; Mok, 1973; Redding, 1990, 1996; Redding and Wong, 1986; Silin, 1976; Shalaff, 1981; Whitley, 1992; Wong, 1985; Yang et al., 2005).

Given these potential downsides of a Confucian Firm, it is interesting to ask what role would a *Junzi* play in these situations? Could *Junzi* as corporate leader help save the Confucian Firm from these difficulties and problems? As the ideal moral person,

however, *Junzi* does not exist in reality in full. Being a *Junzi* is the ultimate life goal aspired to by Confucian scholars and/or officials, as well as the "normal person." To become a real *Junzi* is indeed an endless quest for Confucians. Indeed, the fact that it is a high ideal helps to explain why people in reality often fall short of being a *Junzi* in one way or another. Ideally, a fully fledged *Junzi*, would not abuse his power to cause harm to others, would treat others with respect and compassion, and would do all things required of a *Junzi*. However, in reality, things may turn out differently. Even though a leader may be conscientiously striving to be a *Junzi*, (s)he could never be a perfect one. Realistically, what would be most likely to be found in the real world are less-than-perfect *Junzi*'s, even by the best account. It means that in the real world many people in authority simply lack all the good traits of a *Junzi*. Therefore, it is not surprising to find that causing harm to the weak, abusing powers and authorities, doing unethical things, tolerating corruption, among other malfeasances, are common occurrences in the corporate world. Hence, it is not unreasonable to find that authoritarianism, paternalism, guanxiism and other negative elements entailed by Confucianism co-exist with its positive sides. Thus, Confucianism creates in itself internal tensions and contradictions that should not be easily brushed aside. More generally, there are always gaps between words and deeds, especially when lofty ideals are involved. Notwithstanding good intentions, what is aspired to, exhorted, envisioned or advocated may not be easily put into practice, due to the complexity and difficulties involved in the practice of morality.

Virtue and its limit

In order to cure the ills resulting from the relentless pursuit of profit that are plaguing China, reviving the grand old tradition of virtue as prescribed by Confucianism may turn out to be a dose of good medicine. Many of the unethical acts and shady deals undertaken by unscrupulous business people are indeed symptomatic of a society's serious moral deficit and crisis. Reinstating the virtue tradition in society at large and in business is undoubtedly helpful in rectifying the current moral malaises and problems. There is no question that virtues are

important in human society. It is desirable for people to deal with each other through virtuous intent and action. A society with more virtuous people is apparently better than one with less virtuous people, *everything else being equal*. When more virtuous people cooperate, they will at least do two major things that will make a society more habitable – conscientiously avoiding causing harm to each other and society at large, and actively promote the happiness of others and society. If business people were virtuous, less unethical things would happen. Virtuous corporations would treat all their stakeholders in a virtuous way. In addition, virtuous firms would commit themselves to the protection of the environment, and would design policy to help to alleviate the negative impact of climate change. Human society and the environment would be better off if we would have virtuous corporations. Virtues would make the world a better place. One author (Romar, 2002) has argued the significance of Confucian virtue in a positive light. However, are virtues alone enough to save the world? Are virtues themselves sufficient to aid corporations to effectively respond to major ethical issues confronting the modern China Inc.?

In order to be able to effectively respond to complex and difficult ethical issues in business (Barboza, 2007; Chan, 2001; French, 2006; Ip, 2009; Ju, 2005; Kahn, 2003a, b; Li, 2005; Liu, 2007; Luo, 2005, 2007; Wei and Yang, 2003; Yardley, 2004), we need in addition to virtues, effective and reasonable norms that clearly define acceptable conduct and guide behaviors. Effective and reasonable norms can not only define the proper behaviors and relationships, but can also guide behaviors by articulating the related rights and responsibilities with reasonable clarity and concreteness. The comparative advantage of using effective and reasonable norms to shape and guide behavior compared with relying on people's virtues is apparent when confronting issues in the real world (Donaldson and Dunfee, 1999; Ip, 2002). Take the labor issue as an example. Imagine how a virtue-based Confucian Firm and a norm-based firm would each frame ethical policies in this area. True to its nature, a Confucian Firm would have policy broadly framed in virtue terms. For example, it would adopt provisions that require in effect that workers should be treated virtuously, that managers should treat workers well with respect to compensation, overtime, holidays,

freedom of association, and collective bargaining, among other things. However, what would be counted as virtuous in these various aspects would always remain vague or under-defined. What would be regarded as a virtuous act with respect to worker's compensation and benefits in general would be difficult to ascertain. Other more complex issues would create more uncertainty and confusion. Take the issue of worker's freedom of association as an example. A virtuous manager could see this freedom as a privilege not appropriate in the present political environment, as he would be mindful of such freedoms could cause tensions in society and disrupt the stability and harmony of state-business relationships. In contrast, another equally virtuous manager would regard this as a reasonable demand of the workers and would support it, or would even try to lobby government officials to grant this right to workers. This imagined scenario is enough to highlight one critical problem of a virtue-based corporation – virtues are too amorphous or vague to guide thought and action, and very often may generate contradictory recommendations that may end up in a moral deadlock. This is because of the simple fact that virtuous persons may have different intuitions or judgments about the rightness and wrongness of a particular policy or action. When virtuous people disagree, it is futile to invoke another virtue or involve another virtuous person, to resolve the disagreement. Being virtuous by itself is not sufficient to make concrete moral judgment about the rights and wrongs of things all the time. To make a judgment about the ethics of an act, people often need to invoke elements other than virtues. They need norms and rules.

CSR norms and the Confucian Firm

The emergency of CSR in recent decades symbolizes humanity's moral expectation for responsible corporate conduct in this globalized world. The notion of CSR indeed spells out the specific responsibilities of today's corporations in clear and relatively actionable terms. Thus, the demands and contents of CSR serve as major criteria against which the ethics of corporations can be assessed and guided.

Though there are different definitions of CSR, for the present purposes, I take the CSR of a firm to

mean the ethical concerns and responsibilities of a firm has for its major stakeholders and the environment in which the firm operates. It consists of three major concerns and responsibilities – financial, social, and environmental. The “triple bottom-line” is an apt term to describe these three aspects of CSR. It means that to become an ethical firm, a firm has its financial, social, and environmental responsibilities to fulfill.

There are several major CSR guidelines and norms which are strongly supported by the global community because of its universal applicability and moral legitimacy. For example, The OECD Declaration of International Declaration Investment and Multinational Enterprises, The Global Compact, the Caux Roundtable Principles of Business and the United Nation Norms on the Responsibilities of Transnational Corporation and Other Business Enterprises with Regard to Human Rights (UN Human Rights Norms hereafter) are rich sources of the CSR related criteria.

The 10 principles listed in the Global Compact serve as clear and easy-to-understand guidelines for corporate ethics. They require corporations to support and respect human rights stipulated in global declarations. The compact also has norms governing labor rights – supporting collective bargaining and freedom of association, against forced labor and child labor, against employment discrimination and protection of the environment, and against corruption. It represents the minimal morality for corporation to uptake. The UN Human Rights Norms is a set of composite norms articulating for corporations the key rights to be respected and the major obligations to be fulfilled. It includes the right to equal opportunity and non-discriminatory treatment, the right to security of persons, rights of workers and respect for national sovereignty and human rights. The norms also contain obligations with regard to consumer protection and environmental protection. These norms are indeed sourced from and built on other reasonable and popularly supported norms, and thus have a strong consensual basis and moral legitimacy. They emerged as a direct response to the major issues of their day, and thus are highly relevant to the real world. Also, the norms are spelt out in sufficient details that they can be readily understood and implemented. As such, they not only serve as effective guidelines and norms of ethical conduct,

but also can be used as a tool to test whether a firm can measure up ethically. Can the Confucian Firm measure up to the test? I argue that many major features of it are incompatible with the core value of equality presupposed by the human rights norm.

Equality of persons

When the Confucian Firm is examined against the norm of human rights and its underlying values, we can readily detect tensions and disharmony. This means that collectivism, paternalism, hierarchism, particularism, and authoritarianism that are constituted of the Confucian Firm are incompatible with the values that ground the norm of human rights. Specifically, the notion of human rights presupposes a concept of equality of persons that stands in opposition in various degrees to these Confucian elements.

The equality of persons means that each person is a unique and irreplaceable individual who has the capacity to make choices and life-plans in accordance with his or her interests and values. It means that a person has inherent value and dignity that is independent of the group, community or nation to which he or she belongs. A person's employability or promotion should be determined by his or her potential and capability, and not be dictated and dominated by external factors, including the family, communities or societal values and interests, though these factors deeply affect a person's life. It also means that persons have equal freedoms and rights regardless of gender, race, age, religion, wealth, education, ethnicity, nationality, political views, among others, that should be equally respected and protected. This idea lies behind the idea of a person's right to equal concern (Dworkin, 1977) that broadly embraces all the basic rights and freedoms as endorsed in major human rights declarations and conventions – freedom of expression, freedom of thought, freedom of association, freedom of movement, freedom of conscience, and freedom to make choices, among others.

The equality of persons is not compatible with collectivism because collectivism defines values and interests of an individual as subordinated to those of the group of which the individual is a member. Collectivism subjugates the values and interests of

individuals under that of groups and communities. It demands that individual values and interests be realized and fulfilled only when the values and interests of the group are realized and fulfilled because it states that individuals do not have values and interests separate or independent from their affiliated groups or communities. To the extent that it denies or diminishes independent values to the individual, collectivism does not recognize the equality of persons. Collectivism in firms will often infringe, suppress or even sacrifice employees' rights in the name of the interests of the company.

Paternalism restricts or suppresses an individual's freedom to choose with the claim that it acts in the best interest of the individual. Within the firm, institutionalized paternalism creates an environment that hampers development of the individual's capability to make choices and thus restrict the growth of his or her autonomy. It also breeds a habit of passivity on the part of employees in the workplace because employees are habitually deprived of the opportunities to learn to take up responsibilities, as well as to make choices and decisions. Over time, employees will become unthinking and compliant "automata" with diminished or arrested capacity to create or take initiatives in the workplace.

Authoritarianism bases the allocation of benefits and opportunities on raw authority. "Might is right" captures the true nature of authoritarianism. Authority is observed as the proxy for truth and ethical rightness. In practice, authoritarian managers influence employees not by reason and facts, but by brute power and authority that often lacks legitimacy. In general, the exercise of power and authority under an authoritarian culture is *by fiat* and rests on no reasonable basis other than authority itself. However, in organizations, for authority to have real influence over subordinates, it must have legitimacy that is based on good organizational and moral reasons. Workplace authoritarianism uses power and authority as bases of making decisions, allocating responsibilities and opportunities and other management routines. It breeds authority-fearing and even authority-worship subordinates that are excessively subservient. Authoritarianism and paternalism aligns well with hierarchy. The vertical relationship with its embedded inequality stands in stark contrast to a horizontal and equal relationship that underlies human rights. Authoritarian and

paternalistic practices with their top-down decision-making style, create what amounts to a command-and-control organization culture that allows little free and open debates and is less tolerant of disagreements and dissent. They nurture a culture of coercion, which is against what a good workplace should be. Particularism dictates the allocation of benefits and opportunities on basis of particularistic and affective associations, and not basis of merits, thus violates the right to equal concern and fairness (Ip, 2009).

Conclusion

Since the founding of the People's Republic in 1949, the communist authorities have tried hard to replace the old feudalistic tradition with the new socialist culture. Being perceived as the crown jewel of feudalism, Confucianism had been systematically demonized, suppressed, and purged. Despite these harsh and brutal treatments, Confucianism recently finds a comeback, thanks to the endorsements by many top government officials. With these positive sanctions from the authorities, Confucianism seems to have regained popularity in society. The recent rapid growth of Confucian academies all over the world for teaching foreigners Chinese language and culture seems to confirm this. On the academic side, local and overseas scholars have been promoting the values of Confucianism in the building of a business moral order in China. With few exceptions (Ip, 2000), the bulk of discussion in the literature seems to focus on the positive sides of Confucianism (Chan, 2008; Koehn, 2001; Lam, 2003; Romar, 2002, 2004). These studies are largely based on fairly sympathetic readings of a few often quoted textual extracts from the Confucian corpus. Argued in loose language and using analyses often couched in generic and vague terms, they are particularly weak in making the connections between the concepts with the real world of business. They have little to say in concrete terms on how Confucianism can combat corporate malfeasance. More importantly, they contain very little critical work, especially on the darker side of Confucianism. This present work is an attempt to fill in this gap to give a more balanced picture of Confucianism, especially in relation to business ethics.⁴

For the future development of Chinese companies (Ip, 2000), an ethical corporation to be able to rise up to the challenges facing China today should possess certain major capacities: to adapt and respond to both the Chinese developmental context and the global economy; to perform as effectively and efficiently as any other corporation of excellence with comparable competitiveness; to continuously innovate in its products and services; to create wealth and profit but also to contribute to the common good of society; to make a significant contribution to the modernization of China; to have a corporate culture resulting from a creative transformation of the cultural legacy of which it is a part; to embrace as inclusively as possible all value systems within its culture; to forge dialogs and mutual understanding and learning with other corporations both within its culture and in other cultures; to be open and accommodating with divergent views and values of the world; to foster trust and cooperation both within the corporation and with its competitors; to take due care of the impact of its plans and actions on all stakeholders and take due responsibilities for it, among others. These seem to be reasonable requirements that a Confucian Firm need to seriously address.

Notwithstanding certain merits of a virtue-based Confucian Firm, the above discussion has revealed that major negative elements entailed by familial collectivism create steep hurdles in realizing these capacities. Virtues are like apple pie and motherhood that everyone loves. However, they are not enough to equip a firm to face modern difficult challenges. Without instituting reasonable and effective norms, together with effective mechanism for protecting rights, a virtue-based Confucian Firm will fall short of meeting the daunting challenges of this century.

Notes

¹ For more recent discussions of Confucian ethics in relation to business ethics, see (Chan, 2008; Hwang, 1984, 1988; Koehn, 2001; Lam, 2003; Romar, 2002, 2004).

² For a general introduction to Mencius philosophy and his concept of Yi, see Chan (1963, pp. 49–51).

³ This list is reconstructed from the Confucian virtues stated in the *Analects*, see Chan (1963, pp. 18–48).

⁴ A full and fair discussion of these studies deserves a separate article.

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