Confucian and Legalist Basis of Leadership and Business Ethics

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Abstract

In view of the fact that a company may develop its corporate culture by utilizing the resource of cultural heritage where it is situated, this chapter traced the historical origins of Confucianism and Legalism, discussed their theories of leadership and organization, proposed a conceptual scheme for comparing the five major aspects of Confucianism and Legalism, and used it to interpret the cultural dynamics for some historical episodes. A critical review over findings of pervious research indicated that most issues related to the establishment of business ethics in contemporary Confucian societies can be interpreted in the context of current conceptual scheme.

Introduction

This chapter is aimed to discuss the philosophical foundations of leadership and business ethics in Chinese societies. In their empirical research designed to explore the philosophic foundations of business management, Cheung & Chan [9] interviewed five eminent corporate executive officers (CEOs) in Hong Kong. Their dialogues revealed that the CEOs practice a style of Chinese leadership synthesizing Confucian, Daoist, Mohist, and Legalist doctrines. The Confucian doctrines advocate benevolence, harmony, learning, loyalty, righteousness, and humility. They are the most prevalent tenets that support paternalism and collectivism. The Daoist doctrines emphasize flexibility and reversion (e.g., the principle that the weak can defeat the strong). They bolster the leader's forbearance. The Mohist doctrines underpin thrift and working with the masses, whereas the Legalist doctrines inculcate self-control and innovativeness.

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The contents of those philosophical tenets can certainly not be exhausted by the aforementioned values. When an individual encounters problem in his lifeworld, he may try to seek for adequate wisdom for action from his personal stock of knowledge to solve the problem. Each traditional school of philosophy contains an ideal concept of person, as well as its accompanying wisdoms for action which can be utilized to solve various problems in their lifeworlds. In addition to these traditional philosophies, a Chinese CEO may also use Western knowledge of management to practice the task of business administration.

Viewing from the perspective of social science, the most important cultural tradition that may contribute to the leadership and business ethics in contemporary Chinese society is Confucianism and Legalism. Hence this handbook is designed to elaborate the philosophical foundations of business ethics in various societies over the world, this chapter will begin by a brief biography for Confucius and Hanfei, the founder of these two schools respectively. The foundation of their thoughts will be discussed within the context of their era, special attention will be paid to the interplay of these two philosophical schools in Chinese history. A conceptual scheme will be proposed to expound its influence on leadership and business ethics in contemporary Chinese societies.

Confucius' Era and His School

As a major school of philosophy, Confucianism was emerged and founded in a tumultuous and chaotic age in Ancient China. In the earlier Zhou dynasty, the rights and duties of the ruler and his vassals were clearly defined by a feudal system. During the Western Zhou period (1027–771 B.C.), the sovereign not only commended universal and tribute among his vassals, but also exercised considerable control over their social affairs. He might even punish an offending vassal with armed force. After Zhou capital was invaded by barbarians in 771 B.C., the ruler fled and established his court at Loyang in the East. The power of the Eastern Zhou dynasty waned rapidly, and the rulers of the feudal states were left with increasing freedom to ignore their customary duties to the sovereign and to expend their territories and domains of power.

Confucius' Era

Confucius (551–479 B.C.) was born in the State of Lu (now Shandong province) during the tumultuous period of Spring and Autumn (772–484 B.C.). His father, a mid-rank official, died when he was 3 years old. Confucius worked as a shepherd and as an accountant for a noble family. He was very interested in the rites and institutions that prevailed in earlier period of Zhou dynasty, and devoted himself to study the traditional culture of Zhou. During Confucius' life time, feudal princes were frequently trying to usurp the throne. So he hoped to restore social order by advocating a return to a morality of loyalty and the ethical system of filial piety.

Confucius began his career as a public teacher since his age of 22. His fame gradually increased, and it was said that he attracted 72 disciples and more than 3,000 students, which earned him a good reputation and made him famous [1].

Confucius identified himself as an educator whose mandate was to rectify the world by teaching virtues. In attempting to restore the feudal social order of the early Zhou dynasty, he spent a lot of time researching and recording rites and music for ceremonies and other occasions expressing one's dedication to family, country, and state. He also edited poems and classics collected from various states, including Lu, Zhou, Sung, and Chi. He wrote a history of Lu entitled *Spring and Autumn* and annotated ten supplements to the *I-ching*. All of these were used as materials for teaching his students [60].

Confucian Ethics

In order to restore the feudal social order of the early Zhou dynasty, Confucius advocated an ethical system centered on the concept of benevolence (*ren*). His doctrine was enriched by Mencius (372–289 B.C.) and Shiun-tze (315–226 B.C.), who added the concepts of righteousness (*yi*) and propriety (*li*), respectively. Benevolence (*ren*) in the Confucian tradition is not kindness or goodness directed to all of humanity including strangers, but is defined as favoring people with whom one has a close relationship. Righteousness or appropriateness (*yi*) refers to respect for those whom respect is required by the relationship, and propriety (*li*) is defined as acting according to previously established rites or social norms.

Confucians advocated five cardinal ethics for the five major dyadic relationships in Chinese society. The obligations that accompany the roles of each of these five relationships are fulfilled by practicing different core values:

> What are the things that humans consider righteous (yi)? Kindness on the part of the father, and filial duty of the son; gentleness on the part of the elder brother, and obedience of the younger; righteousness on the part of the husband, and submission by the wife; kindness on the part of the elders, and deference by juniors; benevolence on the part of the ruler, and loyalty of ministers. These are the ten things that humans consider being righteous. (Li Chi, Chapter 9: Li Yun)

This passage, which does not include a reference to relationships between friends, promotes the idea that social interaction should follow the principle of respecting the superior, particularly in interactions between parents and children and between a king and his loyal subordinates.

When Confucians were contemplating the ontology of the universe, they did not conceive a transcendent creator as did the Christians. Instead, they recognized a simple fact that each individual's life is a continuation of his or her parents' physical lives and the lives of one's descendants are the derivatives of one's own. Therefore, Confucians proposed the core value of filial piety and advocated for the ideal of "kind father and filial son," which was a prototype for arranging the relationship between "benevolent king and loyal minister." A father should run

a family like a feudal ruler reins a state. Parents are obligated to show their kindness by taking good care of their children, while children are expected to fulfill their filial duties by working hard to pursue goals that are highly valued by the whole society.

Confucian Theory of Leadership

Confucius believed that in order to govern others, one must first govern oneself. So he advocated self-cultivation for everybody, proposed the ideal of sage King, and argued that if the King's personal virtue has developed sufficiently, it may spread beneficent influence throughout the kingdom. He claimed that a ruler's own straightness will have an attractive effect to bring obstinate subjects into line and produce obedience to the governing authority. Therefore, he counseled for the ruler to "just desire the good yourself and the common people will be good." (Analects XII, 19)

> To govern a nation by virtue, can be compared to the North Polar Star:
> it remains in its place, while the other stars wait upon it (Analects II, 1).

Mencius believed human nature to be inherently good. All human beings possess four incipient virtues: commiseration, shame and dislike, respect and reverence, as well as right and wrong. It was these qualities that gave humans the character of being humans. Therefore, a ruler must govern humanely. With the inherently good mind, a sage King should establish government "that could not bear to see the suffering of the people". The practice of humane government will automatically attract support from the common people, who will submit willingly, rather than needing force to enforce obedience. Furthermore, the magnetism of humane government is so strong that it may extend to the people in neighboring states (Mencius, Kung-sun Ch'au, Part II, 5 & 6).

A ruler "who oppresses his people to the extreme will himself be slain and his kingdom will perish." Mencius advocated that a loyal minister is obliged to rectify the king to rule with humanity. In case when a ruler fails to do so Mencius declared that "he who injures humanity is a bandit him." The populace beneath him have a right to rise in resistance of his despotism and overthrow. Since his kingly status is lost, the act of deposing him is not to be named "regicide," but is simply tyrannicide (Mencius, King Hui of Liang, Part II, 8).

Hanfei's Era and His Thoughts

During the end period of Spring and Autumn, the power of the Eastern Zhou dynasty was too weak to control rulers of the feudal states, they not only ignored their customary duties to the sovereign, but also took any opportunity to expand their territories and powers by conquering and merging other weak states.

Gradually, five powerful feudal leaders emerged. They were eager to influence or even to control the Zhou king and to impose their will on the other feudal lords.

Many intellectuals began suggesting ideas to the rulers on how to attain their goals of state. This historical context fostered the formation of the Legalist school.

As a major school of philosophy, Fa Jia (the Legalist school) emerged during the tumultuous and chaotic age of Warring States Period (403–222 B.C.). Its main thoughts were refined against the cultural background of Confucianism, its contents are in direct opposition to Confucianism in many respects.

Hanfei's Era

Hanfei (280–233 B.C.) was a prince from a royal family in the small state of Han during the Warring States Period. The ruling family of Han had formerly been high ministers in the state of Jin, but they gradually usurped power and divided the territory of Jin with two other noble families to create three new states, Han, Jao, and Wei. The domain of Han was small and its territory located in a mountainous area, so they were constantly threatened by their strong neighbors, especially the powerful state of Chin.

Worrying about the dangerous condition of his own native state, Hanfei devoted himself to studying the course of the rise and fall of a state. Because of his stutter, Hanfei was unable to articulate his ideas with eloquence. He repeatedly submitted suggestions to his ruler, but the ruler ignored his advice. So he decided to take another course and wrote them into a book [40].

Legalist Theory of Leadership

Unlike the Confucians, the Legalists had no interest in preserving or restoring the customs or moral values of the past. Their only goal was to teach the ruler how to survive and prosper in a highly competitive world through various measures of administrative reform, such as strengthening the central government, increasing food production, enforcing military training, and replacing the old aristocracy with a team of bureaucrats.

Based on the presumption that all human behaviors are motivated by a ruthless pursuit of self-interest, Hanfei's theory of leadership was constructed around three core concepts, namely, *shih* (power), *fa* (law), and *shu* (management technique). According to Hanfei's theory, a ruler has to occupy the position of leader with substantial power (*shih*) before he is able to use law (*fa*) and management techniques (*shu*) to manipulate his subordinates [27].

To Hanfei, real power means ability of the position-occupier to utilize tactics of influence by meting out reward and punishment, which was termed as "two handles." Hanfei advocated that a ruler with power should "hold handles while situated in his position" and manipulate his subordinates by *fa* and *shu* (*The two handles*). *Fa* means law or rules of regulation, while *shu* means skills of manipulation that can be used by the ruler to control subordinates to attain organizational goals.

Though Hanfei argued that *fa* (law) should be initiated by the ruler, he did not think that a ruler should establish law at his own will. Just like other Chinese philosophers of his time, Hanfei believed that the *Dao* (the Way) is the origin and fundamental principle of operation for everything in the universe. An enlightened ruler should realize it and use it as a basis for constructing rules to judge right and wrong.

Hanfei believed that natural law can be established with the consensus of all group members. He suggested the ruler to follow "the order of heaven," "the fundamental principle of nature," or "the natural way," and advised that a smart leader should study carefully the principles of nature operating in the state, and use them as the foundation for constituting rules (*The way of the sovereign*). Because "law is used for regulating ordinary operation" of a state, it must be characterized by such important features as: publicity, objectivity, feasibility, enforceability, universality. Furthermore, all rules should be constituted on the basis of equity rule, or *gongdao*. Therefore, people are willing to follow them without complaint (*The principle features of Legalism*).

Based on this concept of *fa*, Hanfei proposed three main techniques (*shu*) for a ruler to manipulate subordinates, namely, assigning competent talent to the right position, following up the project and checking the results, and evaluating contributions and granting rewards accordingly. He said

> Shu means assigning the competent talents to right positions of the government, checking results of performance with what had been stated in their proposals, controlling the power of sparing and killing to evaluate competencies of ministers. Those should be held by a ruler. (Deciding between two legalistic doctrines)

Confucianism and Legalism in Chinese Society

During the Han dynasty, Tung Jong-shu (179–104 B.C.) proposed integrating the two systems with the idea of "making judicial sentence by the Confucian classic of Spring and Autumn" and "utilizing Legalism as an instrument to consolidate the Confucian social system" [11]. Rulers of China began to use Legalist methods to defend their power and position and to control people, but retained Confucian doctrine to educate and discipline people. Chinese society became characterized by the feature of "Confucianism in public and Legalism in private."

Familism and Nepotism

Confucian ethics for ordinary people proposes a principle of favoring intimates as the formula for distributive justice. This principle demands the decision-maker to distribute resources on the basis of *rendao*, i.e., one should adopt the need rule for interacting with family members, and the *renqing* (affective) rule for interacting with acquaintances in one's network of *guanxi* (relationships) outside the family. The practice of such ethics may result in familism and nepotism in Chinese society.

The Confucian view assumes that an individual's life is inherited from one's parents as well as one's ancestors, and that the lives of one's offspring are continuous with one's own life, so the family is viewed as an inseparable entity. This is the cardinal component of the ideology of East Asian familism, which is dramatically different from the individualism of Western culture originating from Christianity.

In addition to familism, Confucianism also includes a social philosophy encouraging individuals to maintain harmonious relationships with people outside their own families. Viewed from the conceptual framework of *Face and Favor*, when individuals interact with relatives, friends, or acquaintances within the network of *guanxi*, they must be polite and hospitable. According to the rule of *renqing*, when an acquaintance encounters difficulties, one must behave as considerately as possible and do favors for them as far as possible. By the same token, when individuals receive favors from acquaintances, they must remember to try to reciprocate.

The operation of a *guanxi* network might be either beneficial or harmful to the operation of a firm or a state, depending on the nature of resources involved in the *renqing* event. A leader may utilize *guanxi* to solve many problems; in contrast, the *guanxi* network may become a breeding-ground for nepotism, factionalism, and cliquism in an institution.

Struggle Between Confucianism and Legalism

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

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

A Conceptual Scheme

In order to elucidate the essential nature of the struggle between Confucianism and Legalism, Hwang [26] proposed a conceptual scheme to compare five crucial aspects of these two schools of thought: value orientations, norms for regulating

Table 50.1 A comparison between five major aspects of Confucianism and legalism

	Confucianism		
	Ethics for ordinay people	Ethics for scholars	Legalism
1. Value orientation	Familism	Collectivism	Individualism and collectivism
2. Social norm	Particular *li* (courtesy)	Universl *ren* (Benevolence)	Universal law (*fa*)
3. Distributive rule	Need rule	Equality rule	Equity rule
4. Criteria for distribution	Blood relationship	Membership	Contribution
5. Decision-maker	Paterfamilias	Elite (scholar-offical)	Ruler

Source: Adapted from Hwang ([26], p. 26).

social behavior, rules for distributing resources, input factors determining the distribution of resources, and the authority who makes decisions (Table 50.1).

Confucianism advocates a kind of status ethics. It has differing expectations of scholars and ordinary people. For ordinary people, it is enough to practice the *ren-yi-li* ethical system within the domain of one's family and acquaintances. The guiding principle for their social organization is familism, the social norm for regulating social behavior is *li* (politeness), and the decision-maker who holds the power of distributing resources within the family is the paterfamilias. When allocating resources to others, the first thing to consider is the blood relation with the recipient. Resources are frequently allocated according to the need rule.

Confucianism sets a completely different expectation for scholars. It expects scholars to contribute to the world with Dao, and requires them to extend the domain for practicing rendao from the individual and family level to greater society; the bigger one's domain, the greater one's moral achievement. While the ideal goal of Confucianism is to attain a peaceful, harmonious world, what a scholar can really do is to actualize *rendao* in a community or social organization larger than the family. Therefore the value orientation of scholarly social behavior can be termed collectivism. According to the Confucian ethics for scholars, the norm for social acts in such a collectivity should be *ren*, all important resources of the group should be allocated according to the equality rule by morally educated scholars, and every member of the group is entitled to an equal share.

As stated in the previous section, when a Legalist leader is assessing how to allocate rewards and punishments to subordinates, contributions to the accomplishment of organizational goals, rather than blood relationships or group memberships, should be considered. Therefore, the guiding rule for their social acts comprises both individualism and collectivism. By recognizing the legitimacy of individual interests and by advocating the universality of legal applications, Legalists are individualists. However, Legalists are collectivistic in the sense that they give priority to organizational and national goals rather than to familism and factionism. A delicate combination of parts of both the Confucian and Legalist traditions was created and maintained in the feudalistic society of Imperial China for hundreds of years.

The Manifestation of Cultural Tradition in Contemporary China

The Cultural Revolution

After the Communists took over China in 1949, they began to strive to replace Confucianism with the ideology of Marxism. During the Great Leap Forward beginning in 1958, most families were reorganized into self-sufficient communes on the principle of egalitarianism in the hope that people would transfer their loyalty from the family to the state [44, 51]. During the Cultural Revolution from 1966 to 1976, the Communists proposed the slogan: "denounce Confucianism and raise Legalism." People were required to follow the precepts of Marxism, and every act had to be in accordance with the teachings of Chairman Mao Zedong. The Communists claimed that the nature of these movements was the struggle between Confucianism and Legalism or the struggle between communism and capitalism [10, 13, 42]. But, if these movements are examined with reference to the conceptual scheme in Table 50.1, it can be seen that in fact they are struggles between Confucian ethics for ordinary people and those for scholars. The Communists attempted to replace the Chinese family system with the new organization of communes, where communist cadres played the role of traditional scholar-officials in promoting production by advocating the orthodox ideology of Marxism and allocating all important resources to members of the commune in an equal way [5]. Viewed from the perspective of Chinese culture, all these efforts can be said to be attempts to replace the Confucian ethics for ordinary people with those for scholars, or to transform loyalty to family and personal *guanxi* into loyalty to the state and the Party. The Great Leap Forward and the Cultural Revolution proved to be monumental failures: Economic productivity declined to an abysmal level, and countless people suffered starvation during these years [44, 51].

In 1978, Deng Xiaoping took over the reins of power, stabilized the political turmoil after cultural revolution, and adopted the policy of Reforms and Openness (*Gaige Kaifang*) to attain the goals of Four Modernizations, those of agriculture, industry, science and technology, and military [12, 21]. Deng's program of economic reform shifted China's development strategy to an emphasis on light industry and export-led growth. For the sake of attaining certain foreign funds, market, advanced technologies, and management experiences, China followed the experiences of the East Asian Tigers, and established a series of Special Economic Zones where foreign investment and market liberalization were encouraged [43, 53].

Tension Between Confucianism and Legalism

It is generally agreed that modernization for most Asian countries is essentially a process of exogenous change originating from outside and transmitted to the inside, from the top down, which is different from the endogenous modernization of Christian countries [2, 16]. During the process of transformation, it will encounter genuine struggle between Confucianism and Legalism at both the state and firm

levels, which may influence the operation of the firm as well as the state as a whole. In an industrial/commercial society of organic solidarity, any conflict or struggle occurring at the societal center may interactively influence the operation of a firm at the periphery [16].

Before China decided to adopt the policy of Reforms and Openness, almost all important resources for economic production were under the control of either the government or the state-owned firms.

When China decided to adopt the capitalistic route of national development, the societal center must make every effort to construct economic and legal systems with a high degree of formal rationality to encourage entrepreneurs to utilize state-owned resources to pursue benefit by investing and creating organizations to make products to meet the demands of the market. Ideally speaking, both systems should be designed to create a sociocultural milieu with the characteristics of the Legalistic tradition as described in Table 50.1. The political leaders in power decide to create favorable conditions at the state level, while entrepreneurs make effort to combine all the subsidiary factors for raising production at the organizational level [49, 50].

However, because the legal system has been formulated from top to down, it is usually constructed with some *gray* areas where an administrative office can interpret it flexibly. During the process of transforming a particular public resource to the private sector, a decision-maker in either government or state-owned firms may have the power of allocating at his will the public resource without its ownership.

He may allocate the resource to several petitioners of instrumental ties in accordance with equity rule or *gongdao* without any psychological conflict. Nevertheless, if a petitioner of his acquaintances asks him to allocate the resource in such a way to favor the petitioner, he may experience the tension between Confucian *renqing* and Legalist *gongdao*. In case when two or more groups are involved in striving for a scarce resource, the situation of struggle between Confucianism and Legalism may happen in which the involved parties may utilize various forms of Confucian or Legalist rules as listed in Table 50.1 to defend their own positions or to compete with their opponents.

Two Types of Enterprises

Operating in such a social and political environment, enterprises in China can be differentiated into two broad categories. One category is generally state-owned businesses. They are mainly specialized in doing business with governmental sectors and are subject to major influence by government policies. They maintain close relationships with high-ranking officials in the government and can be termed *relation-oriented enterprises*.

The other category of enterprises is composed mostly of foreign-investment or private businesses that concentrate on selling their products in the domestic or international markets, which are their major sources of interest. They pay more

attention to improving the quality of their products and to developing new markets. They can be termed *market-oriented enterprises*.

This does not mean that a market-oriented enterprise can totally disregard *guanxi* (social relationships). Since the early stage when Chinese society began to transform from planned economy to market economy, maintaining necessary *guanxi* ties with government officials has long been an important strategy for all enterprises to the constantly changing environment. For instance, an empirical research conducted by Peng & Luo [47] indicated that *Guanxi* ties with government officials were paradoxically more important for non-state-owned firms than for state-owned firms.

Rational Calculation

Furthermore, in order to compete with other products in the market, entrepreneurs must maintain not only public relationships with customers, but also specific networks of marketing channels for selling products. Therefore, it was found that *Guanxi* ties are more crucial for firm performance for service than for manufacturing industries and for firms in low than in high growth industries [47], it had greater positive effect on firm performance for new ventures in an environment of higher level dysfunctional competition [39].

Nevertheless, these relationships are established on the basis of rational calculations and equitable exchange, unlike the merchant–politician relationships aimed at apportioning public resources.

Because *guanxi* cultivation needs financial resources, Park and Luo [46] found that *guanxi* utilization achieved sales growth but not profit growth while Shenkar, Luo, and Nyaw [52] found that *guanxi* strategy improved sales revenue but not cost reduction. Most researchers argued that as market-oriented reform deepened and institutional environment became more mature over time, the effect of *guanxi* ties or *guanxi* practices on performance diminished [22, 41, 57].

Two Types of Guanxi

In order to explain the prevalence of *guanxi* usage and *guanxi* strategy in Chinese society, some researchers have proposed several conceptual frameworks for analyzing this phenomenon.

Tan & Snell [56] conducted a study of semi-structured interview with 46 ethnic Chinese managers and 30 non-Chinese expatriate managers in Singapore. They provided evidence of the use of traditional *guanxi-linked morality* as a moral resource by some of the former group in judging workplace ethical dilemmas. The moral reasoning reflects wider cultural heritage, and is not merely a function of corporate culture and individual moral development. While such morality played only a minor role in moral reasoning, it was largely overshadowed by *modernist morality*.

Quanli Guanxi

Nevertheless, what is the *guanxi*-linked morality? Some researchers have tried to define it clearly. For example, Zhang & Zhang [64] classified *guanxi* into obligatory, reciprocal, and utilitarian types at the individual level. Viewing from the theoretical model of *Face and Favor* [25], reciprocity is a universal rule for social interaction. The mixed tie of friendship is composed of both expressive and instrumental components. According to Hwang's [28] analysis of Confucian ethics, when an individual receives a favor from another, he is obligated to repay the favor. Therefore, any *guanxi*-linked event contains utility, reciprocity, and obligation. It is impractical to classify *guanxi* into three clear-cut types of utilitarian, reciprocal, and obligatory.

In an attempt to tease out *guanxi* practices ingrained in the cultural tradition and those adapting to the immature institutional environment, Su and Littlefield [54] proposed two types of *guanxi* practices, namely "*qinyou guanxi*" (personal favor exchanges among family and friends) and "*quanli guanxi*" (exchange between power and interests) and attributed the former to influence of the traditional Chinese culture and the latter to that of the contemporary institutions, mainly that of socialist market economy. They held the former as legitimate means of favor-seeking for common people in navigating through work and life, but the latter as corruptive and rent-seeking by the elite of the power and the wealthy.

Rent-Seeking Guanxi

The so-called favor-seeking *guanxi* means that an individual interact with other party of mixed tie in terms of *renqing* rule. Viewing from the theoretical framework as presented in Table 50.1, there are systems of regulation in any organizational institution. Caused by a variety of reasons, the system of regulations may have some flaws which are called *institutional holes* by Chinese people. In this case, a petitioner may seek for *guanxi* with the resource allocator who has the power of decision-making within the institution, interact with him in accordance with *renqing* rule, and transform their relationship into the so-called rent-seeking *guanxi*. As an alternative definition of economic rent, here rent refers to the returns over and above the costs of employing a monopolistic resource by manipulating government policy [4, 54]. Meanwhile, rent-seeking is synonymous with corruption in imperfect market conditions in which a decision-maker has the power to allocate a resource at a price below the market equilibrium level [58].

Double-Edged Sword of Guanxi

Because social exchange in Chinese society can be distinguished into these two types, *guanxi* can be conceived as a double-edged sword [59], that may have distinct impacts on economic efficiency and the well-being of ordinary Chinese

citizens [15]. On the positive side, favor-seeking *guanxi* has widely been utilized by Chinese businessmen to establish the interpersonal trust in order to maintain the stability and quality of sales and supplies in the market [61]. On the negative side, the process of putting their moral percepts into practice may result in problematic ethical behaviors.

Paradoxical Consequences of Guanxi Practices

Warren et al. [59] conducted two studies to explore the paradoxical (helpful and harmful) consequences of *guanxi* practices to the *guanxi* actor, the organization, and the larger Chinese community. They asked participants to rate the degree of helpfulness and harmfulness of six real life scenarios of *guanxi* practices in Study 1 and to provide actual examples of helpful and harmful *guanxi* practices in Study 2. The majority of the respondents in Study 1 rated *guanxi* practices as always helpful to the focal actor, but sometimes helpful and sometimes harmful to the organization, and most times harmful to the community.

Only one scenario about building loyal customer relationship with no implied violation of organizational or community interests and procedures is viewed as helpful to the self, the organization, and the community. Obviously, when there was conflict of interest, guanxi practices were perceived as benefiting self-interests of the *guanxi* user at the expense of either the organization or the community. In the actual examples of *guanxi* practices provided by the respondents, *guanxi* practices were seen as a double-edged sword. On one hand, *guanxi* practices not only enhanced individual actors' social capital, career advancement, and social and financial well-being but also promoted trust, cooperation, harmony, and efficacy in the organization and the community. On the other hand, reinforcing the first finding in the scenario study, the participants provided vivid examples of how *guanxi* practices that benefited individual users also undermined merit- and product-based competitiveness of the organization and damaged the economic, legal, and ethical institutions of the larger Chinese society.

Generally speaking, *guanxi* practices with favor exchanges as the core activities are ethically acceptable or even laudable if contained in the private domains of life where personal and private resources are exchanged. However, to the extent private and public resources are mixed up in *guanxi* exchanges, they become ethically problematic to the extent public resources are used to benefit private interests of the *guanxi* parties in violation of ethical rules or norms of the relevant communities.

Ethically Lax

Zhuang & Tsang [65] defined some ethically problematic marketing activities and techniques used in personal selling in China as gray-marketing. Based on this, they developed a conceptual model of gray-marketing for a particular type of selling in which both the sellers and the buyers exhibit problematic ethics in an exchange.

They found that the respondents have different ethical evaluations of different marketing practices used in personal selling such as giving and accepting gifts, buying and accepting meals, and offering and accepting kickbacks. Some of these practices may not be considered unethical. Considering in terms of ethical assessment, gray-marketing practiced by buying agents is more unacceptable than when practiced by sales agents. Furthermore, a person's ethical evaluation of gray-marketing behavior, empathy for gray-marketing, and belief that gray-marketing has serious consequences, all significantly affect his inclination to use gray-marketing.

Chan, Cheng, & Szeto [6] conducted a comprehensive survey to examine how Chinese executives perceive the role of *guanxi* and ethics played in their business operations. They factor-analyzed 850 valid replies, and identified three distinct ethics-related attitudes and two distinct *guanxi*-related attitudes for Chinese executives. The cluster analysis of the composite scores of these five attitudinal factors further indicates the existence of three distinct groups of Chinese executives that vary in their ethics and *guanxi* orientations, namely, the unethical profit seeker (UPS), anti-governance, *guanxi*-cultivator (AGGC), and apathetic executive (AE). The three groups are also found to be significantly different in such demographic characteristics as age and the ownership structure of the serving organization. Specifically, the intergroup comparison suggests that younger Chinese executives and those working for privately owned firms and joint ventures are more inclined to engage in unethical activities for profits.

Wu [62] studied business ethics practiced by Taiwanese enterprises in Mainland China, Vietnam, and Indonesia. Some 375 valid responses were obtained from Taiwanese owners or senior administrators. Taiwanese enterprises in East Asia were found to be ethically inclined in respect of their local environments and generic human rights, though one-third of participants identified themselves as "ethically lax."

A cross-cultural comparison of US and Taiwanese business practitioners conducted by Cherry, Lee, & Chien [8] indicated that Taiwanese practitioners exhibit lower perceptions of an ethical issue in a scenario based on bribery, as well as milder deontological evaluations and ethical judgments relative to their US counterparts. In addition, Taiwan respondents showed higher likelihood of making the payment.

Adaptation of Foreign-Investment Enterprises

Conceptualizing along the dimension of modernization, Taiwanese society has been exposed to the impact of Western culture to a greater extent than did the Mainland China. Nevertheless, both Taiwan and Mainland China share similar Confucian cultural tradition, the business ethos of Taiwan are also characterized with Confucian familism and crony capitalism [33]; it would not be difficult for Taiwanese-investment enterprises to adjust to the new social environment to other Asian countries including China.

Nevertheless, managers with different cultural backgrounds who know little about the complicated dynamism between Confucian heritage and Legalism may have different views on what is acceptable ethical behavior [7]. Brand & Slater [3] invited 31 Australian managers who had spent on average 8.7 years working in business connected to China to participate in in-depth interviews regarding their business ethics experiences in China. Those managers identified issues relating to a broad spectrum which could be labeled "bribery and facilitation." Other repeated themes included requests for visa assistance, employee theft, nepotism, and non-adherence to contractual obligations. They identified four key coping strategies from the data: Managers spoke of not compromising their own morals, of attempting to understand the motivation of Chinese colleagues, of talking to others, and of adhering to company policy.

Based on interviews in the China-based operations of 49 UK companies, Millington, Eberhardt, & Wilkinson [45] carried out their research both with senior (often expatriate) staff and with local line managers who were responsible for everyday purchasing decisions and for managing relationships with suppliers. The results suggest that gift giving is perceived to be a significant problem in UK-owned companies in China. Gift giving appears to be associated with illicit payments, corruption, and the pursuit of self-interest. Firms seek to reduce the incidence of illicit transactions by changing staff roles, instituting joint responsibilities, which include the separation of different aspects of sourcing/purchasing, increasing the involvement of senior staff in the process, and through the education of employee and suppliers.

Hierarchical Stakeholder Model

For business of foreign investment, *guanxi* (literally interpersonal connections) is in essence a network of resource coalition-based stakeholders sharing resources for survival, and it plays a key role in achieving business success in China. However, the salience of *guanxi* stakeholders varies: Not all *guanxi* relationships are necessary, and among the necessary *guanxi* participants, not all are equally important. Therefore, establishing necessary *guanxi*, without paying unnecessary costs, becomes a crucial lesson for business of investment to achieve success in China [20].

Su, Mitchell, & Sirgy [55] developed a hierarchical stakeholder model of *guanxi* which dimensionalizes the notion of stakeholder salience, and distinguishes between and among internal and external *guanxi*, core, major, and peripheral *guanxi*, and primary and secondary *guanxi* stakeholders. Guanxi management principles are developed based on a hierarchy of *guanxi* priorities and management specializations. They applied this instrumental stakeholder theory to construct a means for Western business firms in China, to reliably identify *guanxi* partners by employing the principles of effective *guanxi*.

Because business of foreign investment tends to help their managers to improve the way they approach potential ethical situation in China, the ethical performance

of foreign-investment enterprises as measured by various indicators has fared well in comparison to that of the indigenous state-owned enterprises, collectives, and private enterprises [37].

Dynamism for Organizational Change

Balanced Concept of the Firm

Owing to the notable differences between the practice of ethics control mechanisms in foreign-investment and local enterprises, establishing global supply chains of multinational companies in developing countries may institutionalize emergent international ethical standards and practices into this component of the Chinese economy [35]. Some researches indicated that the value profile of Far Eastern students who had lived and studied in USA for a considerable period of time tend to get modified, so as to include the values preferred and desired in the new social environment [36]. They may become agents to initiate social change after they returned to work in their home country.

When corporate social responsibility has become increasingly popular in advanced economics in the West, it is receiving more and more attention by corporations in Taiwan [33] and China [34]. Moreover, because rent-seeking *guanxi* may bring benefits to individuals as well as the organizations they represent, but these benefits are obtained at the expenses of other individuals or firms and thus detrimental to the society [18], a counterforce may emerge to control it from the internal society of China.

Ip [33] examined the challenge of developing a business ethos in China in response to today's increasing demands of corporate social responsibility within the context of recent business scandals, food scare, labor issues, and environmental degradations the country is now experiencing. It seems to me that the efforts of developing business ethics by implementing new rules of regulation against the background of Chinese cultural and ideological heritage can be conceptualized as struggle between Confucianism and Legalism in consideration of Chinese historical context, but it is more adequate to view them as complements between two opposing forces as conceived in Table 50.1. It is an effort to improve the favor-seeking *guanxi* among stakeholders by Confucian wisdom for action, but to suppress the rent-seeking *guanxi* by the Legalist technique of management, so as to assume the corporate's social responsibility. This approach might be called the "*balanced concept of the firm*" [17] which is different from other approaches to corporate ethics in chiefly Western literature such as discussion on "*corporate social responsibility*," *the stakeholder approach*, and *social contract theories*.

Ethical Leadership

In order to explore the effective performance of business ethics and to provide a learned reference, Wu [63] reviewed relevant literature, developed a notion of

"business ethics operation," and argued that different types of *"ethical leadership"* and *"catalytic mechanism"* precipitated four operations and a swathe of different approaches to business ethics within enterprises across the Taiwan Strait. Huang & Snell [23] studied moral climates through case studies of three state-owned enterprises in a South China City, and built a model of the relationship between moral leadership, institutional superstructure, internal governance and control systems, enterprise moral atmosphere, and performance.

Provis [48] discussed two different types of obligations: personal and social obligations as owed to *guanxi* parties, in contrast to general and abstract moral obligations as owed to impersonal communities or the rational structure of law and administration. The personal obligation lies in personal identification with the particularistic social relationships between *guanxi* parties, whereas the general obligation is independent of any concrete individuals or their specific relationships. Private ethics of *guanxi* exchange such as reciprocity and trust between *guanxi* parties may nevertheless conflict with and violate public ethics of the community and the rule of law, impartiality, and fairness.

Conceiving in terms of the conceptual scheme presented in Table 50.1, Confucian ethics for ordinary people emphasize the importance of personal obligation, while Confucian ethics for scholars advocate the value of practicing one's general obligation to the organization or the community. Generally speaking, the effective business ethics are initiated by determined moral leaders with Confucian ethics for scholars who decide to create such a corporate culture by the so-called catalytic mechanism for designing the internal governance and control systems. For example, Firth, Mo, & Wong [19] analyzed enforcement actions issued by the China Securities Regulatory Commission against auditors in respect of fraudulent financial reporting committed by listed companies in China. They found that auditors are more likely to be sanctioned by the regulators for failing to detect and report material misstatement frauds rather than disclosure frauds. Further analysis of the material misstatements indicates that auditors are more likely to be sanctioned for failing to detect and report *revenue-related frauds* rather than *assets-related frauds*. Their results suggested that regulators believe auditors have the responsibility to detect and report frauds that are egregious, transaction-based, and related to accounting earnings.

System-Design Variables

Douglas & Wier [14] hypothesized that budgeting system variables and reactions to them are influenced by culture-specific work-related and ethical values. Most organizational and behavioral views of budgeting fail to acknowledge the ethical components of the problem, and have largely ignored the role of culture in shaping organizational and individual values. The data of their research demonstrated the national cultural differences in system-design variables (such as participation, standards tightness, budget emphasis, etc.,) which they characterized as the opportunity and incentives to create budgetary slack, and the expected relationship

between incentives (but not opportunity) to create slack and slack creation behavior.

For example, "*Small treasuries*" (*xiaojinku*) are off-book accounts found in many large enterprises in China for the purpose of rewarding managers and their subordinates, building up *guanxi* (personal networks), and even financing the business operations of their *danwei* (work units).

While small treasures can, in some cases, help organizations deal with immediate financial problems, they have negative impacts on organizational performance in relation to the moral hazard of managers, as well as the allocation of organizational resources, in respect of sustainability of strategic advantages and growth, and mismanagement of organizations. Because of the involuntary behavior of managers in Chinese enterprises, Hung [24] proposed that it will require not only organizational controls, but also a fundamental change in these managers' ideology for solving the problems of small treasuries.

Conclusion

Fan [18] argued that *guanxi* is an inevitable evil under the current political and socioeconomic systems in China. Its role and importance in business life will be diminished as the country moves toward an open market system. In fact, Fan [18] was talking about rent-seeking *guanxi*, but not favor-seeking *guanxi* in his argumentation. Viewing from the theoretical framework of Table 50.1, when the importance of rent-seeking *guanxi* is diminished as a consequence of struggle between Confucianism and Legalism, favor-seeking *guanxi* is still an important cultural tradition in the complementary leadership between Confucianism and Legalism for maintaining the operation of Chinese enterprise.

Indigenous Control Mechanism

Here I would like to emphasize the implications of "struggle" and "complement" between Confucianism and Legalism. In Chinese history, so-called struggle between Confucianism and Legalism means the contradiction of two opposing forces who are insisting on their attitudes about the establishment of control mechanism to regulate the problematic ethical behaviors within the organization (or the state). After the establishment of ethical control mechanism as a consequence of struggle between Confucianism and Legalism, its practice must rely on the ethical leadership from top to down, which is called practicing Confucianism with a supplement of Legalism by Chinese.

Most ethical issues related to China can be understood in terms of this perspective. For example, intellectual property right is one of the major issues of misunderstanding between the West and the various Chinese political entities after decades of heated negotiation. Lehman [38] examined the sources of this problem from the standpoint of traditional Chinese social and political philosophy, specifically neo-Confucianism. He pointed out that the basic assumptions about the nature of intellectual property, which arose during the seventeenth and eighteenth centuries in Europe, are fundamentally at odds with the traditional Chinese view of the role of intellectuals in society. It suggests

that politics which do not take these differences into account, but which attempt to transfer Western legal concepts without the underlying social constructs, are responsible for much of the lack of success in the area of intellectual property rights.

Virtuous Corporations Against Stigma

Viewing from my advocacy for indigenous psychology [28, 29], so long as the underlying social and cultural construct can be identified for constructing indigenous theories of social sciences, it is not difficult to solve such problems as intellectual property or business ethics. There is a widely spread stereotype that Chinese state-owned enterprises are "economic black holes" which swallow everything in their paths. They have been stigmatized with such images as inefficiency, backwardness, resistance to change, conservatism, and bloated bureaucracy. Nevertheless, as a consequence of China's economic success, more and more state-owned or collective owned enterprises have distinguished themselves by their unique corporate culture as well as their financial performance. Some examples on the name list of "virtuous corporation" are the Weizhi Group, which produces apparel in Xian, Shaaxin province [30], the Haier Group that produces home electrical appliances, the Qingdao Brewery Cooperation, which brews the world-famous Qingdao beer, the Double Star Group, which manufactures in Shangdon province [31], and the Vantone Group, which specializes in reality and financial services in Beijing [32]. Case studies on those "virtuous Corporation" showed that the most prominent features are the strong corporate culture and the leaders which contribute to the business ethics as well as the social capitals of the company. A series of intensive of analysis on those successful cases enabled [32] to conclude that a company can rarely develop its culture without utilizing the culture of the society where it is situated. Corporate cultures of those companies by and large are reflections of their home cultures which, I believe, can only be understood by theoretical framework of indigenous social science.

Cross-References

▶ Chinese Guanxi and Business Ethics
▶ Confucian Virtues and Business Ethics
▶ Daoism and Business Ethics
▶ On Yijing as Basis of Chinese Business Ethics and Management

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