Confucianism, as a philosophy, has performed an important role in China’s business history[1]. It would be a mistake, however, to assume that Confucianism was popular from its outset. Kong Fu Ze, called Confucius by the Jesuit missionaries, lived from 551-479 BC. However, it was more than 300 years after his death before his philosophy found acceptance. The fifth Han Emperor, Wu (147 BC) found Confucianism well suited to the conditions of ancient China[2].

Confucianism, with its emphasis on social rank and ethics, catered admirably to the needs of a strong centralized monarchy. This was a major departure from the established social order. Under the existing structure, the Emperor ceded his land to his relatives. These dukedoms required serfs to work the land, and their agricultural production was the property of the landholder. Each duke, in turn, gave a portion of this production to the Emperor.

From the Han era (206 BC-AD 220) onward, Confucianism held a dominant position in China. It performed an important role in reinforcing the centralized monarchy and shaping ideology. In AD 134 a famous Confucian scholar, Dong Zhongsu, proposed the banning of all schools of thought except the Confucian school. This proposal was accepted by the Emperor. It was Dong who established the Confucius patriarchal conception of “letting a king be a king, a minister be a minister, a father be a father, and a son be a son”. From this premiss came the three cardinal guidelines: rulers guide subjects, fathers guide sons, and husbands guide wives.

Dong also established the five constant virtues: benevolence, righteousness, propriety, wisdom, and fidelity[3]. Dong further advanced the theory of the integration of heaven and man. This conception asserted that the Emperor, as the son of heaven, was sacred and everlasting. Dong strengthened the centralized monarchy by providing a theoretical basis for the existence of monolithic rule. From about 150 BC until the beginning of this century, the Emperor exercised supreme command in China through a well-organized administrative bureaucracy. Only minor changes, like the names of official positions or the number of departments, were introduced during the later dynasties.

The administrative bureaucracy in ancient China was composed of three levels: the leading centre, the central organ, and the local organ. The leading centre consisted of three people: the prime minister, the military commander, and the supervisor. The central organ originally consisted of nine functionally-based ministries. From the Tang to the Qing Dynasties (AD 618-1911), this number was reduced to six: the ministry of personnel, the ministry of revenue, the ministry of rites, the ministry of way, the ministry of punishments, and the ministry of works. The local organ began as a two-level system in the Qin Dynasty (221-207 BC); the prefecture and the county. The Yuan Dynasty (1271-1368) added a third level, the province, to this organization.

It would be incorrect to assume that Confucianism had no problems over the past 2,000 years. Recent history, for example, shows it was criticized after the 1911 revolution and again after the socialist revolution of 1949. During the cultural revolution, it came under heavy criticism and was described as the source of all evils[4].

Although the Confucian system is not now in official vogue in China, the influence is still felt in many facets of Chinese life. For the business person expecting to trade with China, an understanding of this system is essential. Confucianism is so ingrained after 2,000 years that it cannot be ignored. It still forms the basis of most business practices in China.

Strong sense of hierarchy
The centralized monarchy, which dominated China for 2,000 years, survived by maintaining an immense hierarchical system. The long existence of this system...
has produced a strong sense of order and relationship. These concepts still permeate every sector of society, including business. This sense of hierarchy was strengthened, not weakened, with the introduction of Marxism in China.

Confucianism advocates Li (rites) as a basic doctrine. By giving prominence to the principle of Li, Confucianism calls for maintaining the established social order. Aaccording to Confucius, everyone has a fixed position in society and, provided each person behaves according to rank, social harmony is achieved.

A foreign business person must understand the implications of this strong sense of hierarchy to do business successfully in China. Small events, which might be irrelevant in another culture, can become important. For instance, when a group picture is taken, the most conspicuous position should be given to the one highest in rank in the group. A ny breach of the rule may offend the group leader and cause business opportunities to slip away.

Another example involves a British marketer who invited several Chinese guests to a trade promotion reception. At the reception, the host casually handed a glass of wine to a guest who happened to be standing next to him. This guest hesitated to reach for the glass. The British marketer was embarrassed and feared he had done something wrong. After the reception, the British marketer learned the reason for the guest’s hesitation. He was not the highest in rank of the group. A ccording to Chinese tradition, the glass of wine should have been presented to the highest trade official first.

The sense of hierarchy has several manifestations in Chinese business management. It often destroys the sense of participation, essential to the progress of a business. Since everybody is supposed to behave according to rank, people are reluctant to present ideas that may lead to the improvement of the business. This explains much of the inertia in Chinese businesses, particularly in state-owned enterprises. This lack of worker initiative is a principal factor contributing to low business efficiency in China.

The examination system

The emperor appointed the officials needed to administer the massive Chinese infrastructure. Unlike a heredity-based European structure, the bureaucracy of ancient China precluded the possibility of automatically passing an official position from father to son. In China, officials were selected through regularly held imperial examinations. This selection process was a significant innovation. It offered opportunities for all people, even those on the lower rungs of the social ladder, to acquire power and wealth. Thus, they were able to change their social status through their own efforts. The imperial examination system was a form of social equality. Without this system it would have been difficult for the empire to flourish.

The examination system was introduced in the Sui Dynasty (581-618). For more than 1,000 years it was practised throughout the country. Over the years, intellectuals in China made passing the imperial examination and becoming an official their highest ideal. Confucius said, “One should study well to become an official”. To attain their goal, people endured many hardships. Only those who could endure the most severe hardships could be “a man above men”, as a Chinese proverb put it. Once a man became an official, he would acquire the power and wealth belonging to this rank. In ancient China, intellectuals believed the proverb, “Books will provide one with a beauty to marry and a golden house to live in”.

Over time, the government hierarchy, supported by the examination system, managed to remain deeply rooted in the minds of people. Th is explains why a strong sense of hierarchy continues in China[5]. It also illustrates why the Chinese remain more rank conscious than Westerners, although in ancient times both cultures were classified into social classes[6].

Law and ethics

After Confucianism assumed a dominant philosophical position in the Han Dynasty (206 BC - AD 220), the rulers attached greater importance to ethics than to law as a tool of management. Th ese two ideas are different in that laws are stipulated in explicit terms while ethics are established through use. Th at is, laws are externally enforced while ethics are moral commitments established over time.

A ancient Europe relied on the law because the serf system was based on contractual relations. Religious doctrines of a powerful European church were also a potent force. Th is combination of contracts and church support exercised effective control over people’s behaviour. A ncient China there were no contractual relations. Under the centralized monarchy, the Chinese had a weak sense of religion. Unlike the Westerners who often prayed to God, the Chinese thought of heaven only when in trouble. A ncient times, China only had criminal law and imperial decrees. Over the years, China did not produce a code of civil law like Roman law[7].

“Rule by man”

Th e Li concept led to the development of a management style in China known as “rule by man”. Over the years, there has been a long debate between Confucian scholars, who advocate “rule by man”, and legalists, who advocate “rule by law”. Because of the long domination of Confucianism, rule by man has prevailed.
This structure gradually developed into a tradition that still exists in China. The Chinese hold a negative attitude towards civil law. They are reluctant to go to court to settle a dispute. When they do go to court, they consider it painful. A common term is Chi Guansi (“suffering a lawsuit”). For more than 2,000 years there was only criminal law to bring the Chinese under control. There was no civil law to protect their interests. This influence is still felt in Chinese business today, though recently many people have awakened to the adverse consequences produced by this management style.

“Rule by man” is interpreted to mean not merely that top decision makers have the final authority. In China this has come to mean that decisions should never be questioned. The problem with business management is that top decision makers have unlimited powers. On the other side, there is no mechanism to ensure that these powers are not abused.

“Rule by man” presupposes that top decision makers are bright, of high ethical integrity, and will use their power correctly. Unfortunately, such people are far outnumbered by the mediocre. Thus what one often sees in China is an inferior person assuming business leadership. Vested with unlimited powers, that person makes wrong decisions and sometimes ruins the business. He uses his feelings, instead of objective criteria, for personnel selection, promotion, and performance evaluation. This explains why “rule by man” has become paternalism and is a problem for China’s business modernization.

Western business people should be advised that resorting to litigation is not always a constructive alternative for redress in China. Because of the long history of no civil remedy, Chinese business people may not have recourse to the law while there is hope of settling the problem through “friendly consultation”. In China, going to court invariably means the breaking of relations, a risk a business person may not wish to take[6].

The family as the basic production unit
Before 221 BC, China’s basic agricultural production unit was based on a nine-square pattern. This system divided a large square of land into nine smaller squares in a pattern that looked like a noughts and crosses puzzle or the Chinese character “#” (meaning “a well”). The eight outer squares were allocated to serfs, who also cultivated the central square for the landowner. The village was also built in the central square.

Following the disintegration of the nine-square system, the village ceased to be the basic unit of society and a family system emerged in its place. Each family rented land from the landlord and worked it to earn a living. For more than 2,000 years, China’s agricultural production has been based on the household unit. This explains why the Chinese still attach importance to the family. The family was the basic unit of production in China and such traditions die slowly[3].

Land rent
In the feudal society of China, land rent was the means for the distribution of social wealth. By contrast, land rent in ancient Europe was payable in labour or in service. That is, a worker had to provide a specified amount of work to fulfill his rental obligations. With the rise of the Chinese landlord class and the disintegration of the slave system, labour rent was gradually replaced with rent in kind. This type of rent was better than labour rent as it provided greater motivation to farmers. Everything a farmer produced, after he had paid the rent, would be under his control. This system is not unlike the current agricultural policy that permits farmers to sell their extra production in the free markets of China.

Egalitarianism
Confucianism was developed for a self-sufficient and small-scale peasant economy. It advocated an equal distribution of social wealth. Egalitarianism often brings inertia through a lack of motivation. The suppression of the desire to seek material gains has also produced a mentality characterized by a lack of aggressiveness and sense of responsibility. When there is extra work to do, many workers hold the attitude “why me and not you?” or “why must I work harder?”.

With the introduction of Western motivation theory during recent economic reforms, the attitude of the workers has improved but old tradition dies slowly. Now a good employee can get higher bonuses than the typical worker. However, he often shares his bonus with fellow workers out of a fear that he will become the target of jealousy. Ironically, a measure intended to eliminate egalitarianism has ended in equal sharing.

Agricultural support
While the economy of ancient Europe was also agricultural, it was based on a manor system rather than the family unit. In the manor system, labour was divided among groups of people working as weavers, blacksmiths, cobblers, millers, bakers, and brewers. In China the family organization was a mixed blessing. On the one hand, it ensured higher agricultural productivity through co-operation and co-ordination. On the other hand, it did not invite a division of labour. Each family was a self-sufficient unit.

This structure influenced many major economic and cultural differences between ancient China and early Europe. The lack of a division of labour, for example, made it impossible for a commodity economy to flourish in ancient China. This problem still haunts China.
Right of inheritance
In ancient Europe, only the eldest son had the right to inherit property. This system of primogeniture prevented wealth from being dispersed and added to the competitiveness of the manor. The younger brothers, deprived of the right of inheritance, had to seek their livelihoods elsewhere. Many became soldiers or merchants, while some joined the clergy. It was this system that may have forced early Europeans to learn independence, aggressiveness, and risk taking. This system also promoted commercial activities in Europe.

In China, all the sons of a family had equal rights to inherit property. The family required its members to work together. The assumption was that all sons contributed to the growth of the family fortune. Therefore, they were equally entitled to the family property. This inheritance system strengthened filial obedience and gave a dedication to the land. Under ancient China’s economic structure, ethics stressed keeping the family stable[3].

The units of production in China and Europe also caused several philosophical differences. In ancient Europe, philanthropy, love without distinction, was advocated. The Bible, for example, teaches one to love neighbours and even enemies. China, by contrast, valued love with discrimination. According to this ideology, for example, children should love their parents and relatives more than they loved others.

The extended family
In Chinese society, the clan or extended family was a more important social force than in ancient Europe. There were two major forces that caused this phenomenon: all sons had equal rights of inheritance, and the family had to be kept together. As a result, the extended family grew into a clan. In time this developed into a large social organization centring on blood relations.

The clan became very important in ancient China and Chinese rulers used it to control behaviour. Policies and institutions were established to combine the control and power of the clan with the organization of the state. What resulted was family discipline and regulations that had a greater binding force on people than the laws of the state.

The influences of such policies and institutions are still strong in China. For example, one will hear the Chinese say, “When a man gets to the top, all his relatives will get there with him; when a man is found guilty, all his relatives will go to hell with him”.

Agriculture, yes! trade, no!
It was from this family-oriented economic and political system that rulers from the Han Dynasty (206 BC) onwards pursued policies encouraging agriculture and restraining commerce. Merchants were humiliated in many ways. During the Han Dynasty, for example, merchants were not allowed to wear silks, and their children were not allowed to become officials. After his death, a merchant’s hearse could not be decorated and the wares to be buried with him were to be made only of wood or pottery.

In China there was a tradition of structuring groups of people by social importance. Whenever social strata were listed in ancient China, intellectuals invariably came first. They were followed by farmers and craftsmen. The merchants were listed last. This poor image continues today.

Merchants were also discriminated against by taxation. For instance, in the Han Dynasty a poll tax was levied against merchants. This tax was double the amount other workers paid. There were many other taxes paid by the merchants including those for opening a shop, operating a business, and transporting goods by water or land. Through this taxation system, ancient Chinese rulers were able to restrain the growth and power of commerce while increasing the state’s revenue.

There was also a state monopoly for special types of trade like salt, iron, wine, tea, spices, medicinal herbs, lacquer, and alum. Trade under this monopoly structure developed into, what is now called, “official marketing”. This term is a synonym for poor service, high cost, and low efficiency.

Another governmental force that restrained trade was a policy of direct regulation of industry and trade. The emergence of capitalism occurred as early as the Ming Dynasty (1368-1644). Capital and labour, the two primary conditions for economic development, have been present in China for more than 500 years. However merchants were not permitted to reinvest their profits in industry. Earnings had to be used to buy real estate or to practise usury. This made commercial growth all but impossible.

The theoretical foundation of these no-growth policies was Confucianism. Confucius advocated putting righteousness before profits. The Chinese interpretation of this belief was the gradual elimination of the profit motive. Over the years, Confucianism helped create a mentality that regarded profit making as a dishonour or even a sin. While this belief prevailed, it was not possible for a commodity economy to make significant headway.

Formalities and face
Confucianism provides a prescribed response to most situations. Individuals are judged by the way they correspond to these prescribed patterns of interpersonal relations. So long as the person conforms to group
expectations this person has. The loss of face occurs when the group expectations are not met. Losing face can have dire social consequences in Confucian societies.

The formal structure of most organizations and the loss of face can create difficulties for honest communication. External appearances may conflict with internal realities. Often foreign business people are confused and frustrated by the lack of authority of a person with a high-sounding title. This external title may not reflect the person’s real position in the company. Business people must avoid letting this frustration cause the counterpart a loss of face. Propriety is the norm and confrontation and conflict are taboo.

Confucianism and Chinese management: some conclusions

A look at Confucian-based East Asian countries shows that Confucianism can provide the fuel to make the engines of industry work. It provides a work ethic which is characterized by diligence, responsibility, thrift, promptness, co-operation, and learning[8]. Much of the recent success of the East Asian countries may be caused by the pervasiveness of a Confucian influence[9-11].

The traditions of hierarchy provide an ordered collectivity that is often harmonious[10]. Loyalty and obedience to superior authority provide a social order that may be consistent with economic growth. Workers are expected to suppress their hostilities towards superiors.

Family businesses are often treated much like family farms with all family members participating in the rights of inheritance. However, many power positions in business are still provided to the meritorious. In addition, ambitious people also obtain power positions by attaching themselves to superiors. This can breed loyalty but it can also perpetuate inertia.

Finally the formal structure of most organizations has also encouraged lifetime employment. Loyal employees can expect loyalty from their superiors[10].

China has a long way to go to remove the negative influences of Confucianism. However, it would be incorrect to assume that Confucianism exerts only negative influence on business management. For example, an emphasis on harmony among people reduces conflicts and helps to ensure a smooth running of a business.

The several Asian governments feel that management should be based on the principle of Yi (righteousness). In this way, a business can expand long-term profits while eliminating the destructive consequences of illegal profit seeking and unfair competition. Such principles have given birth to a new East Asian industrial civilization. Japan, Singapore, and South Korea have borrowed basic ideas from ancient Chinese philosophy and interpreted them for current conditions[8-12]. All three countries have succeeded in developing a management style of their own based on a blending of Confucianism and Western scientific management.

China has been slower to accept an East Asian business style. Oh[8] suggests there are two reasons for this:

1. Business management has been made possible recently by the switch-over from a planned economy to a market economy.
2. The cultural revolution threw the value system of China into chaos. It will take time to rebuild and incorporate these basic values into Chinese business management.

The qualities for successful business management depend on the value system of a culture. What are the qualities and expectations of the managers as well as the managed? Does a management system provide a framework which can produce the desired effects both domestically and internationally? The definition of effectiveness may differ from country to country. In China the government seems intent on delivering an increasing domestic standard of living through international trade.

China has a long history of stability based on Confucian principles. Recent political changes have created a new structure. However, the basic principles of Confucius are not easily dissolved. They form the basis of much of China’s business practice. Some of the more important aspects of this philosophy are:

- Rank and hierarchy are very important.
- Laws and external structure are not as important as relationships for problem solving ("rule by man" rather than "rule by law").
- Family (and the extended family) is important in this culture.
- Business and business people are distrusted.
- The authority and decisions of superiors should not be questioned.
- Modernization is desired.
- There is co-operation between government and business.
- Emphasis is placed on education.
- Business people dislike formal contracts.
- Successful people avoid extremes.
- Face must be maintained.

Why is it appropriate to discuss Confucianism today? The influence of Confucianism continues to be strong in China. Anyone who seeks to understand the Chinese
business environment cannot ignore it. A study from the perspective of Confucianism can also help predict developments.

Historically, in times of major social change, Confucianism was either ignored or ridiculed. However, in times of stability this philosophy has been highly favoured. Today Confucianism is in official disfavour in China, but will it remain so in the future? When conditions become more stable it is likely that Confucianism will reassert itself. This prediction should interest all who wish to do business with China.

References

Further reading

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Application questions
(1) How important are philosophical principles in business behaviour? Do different systems in society give rise to fundamentally different business behaviours?
(2) Is China tomorrow’s Japan for the world economy?