

Confucian Stakeholder Theory: An Exploration

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ABSTRACT

Originated in the West, stakeholder theory is normatively anchored in Western value systems. Differences in value orientations and ethical systems in this global age call for culturally pertinent stakeholder theory. In this article, we argue that Confucianism forms an additional normative basis for stakeholder theory, appropriate for a Confucian context. We demonstrate it through application of Confucianism in major stakeholder relationships. The Confucian stakeholder theory provides a meaningful addition to the corpus of stakeholder literature.

Stakeholder management, which was introduced in the United States in the 1980s as a systematic approach for a business entity to deal with its different constituencies in an ethical and effective manner (see Freeman 1984), has taken a firm hold in the corporate world in the United States and Western European countries. The stakeholder management model provides a valuable theoretical perspective and its application has often proven to be instrumental in achieving organizational goals

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(see Bartkus et al. 2006; Berman et al. 1999; Donaldson and Preston 1995; Freeman 1984; Hillman and Keim 2001; Moneva et al. 2007; Ogden and Watson 1999). Even if managers do not always get the execution right, the need for effective stakeholder management is widely recognized in the West.

In the past few decades, many Western corporations have moved some of their operations to emerging economies such as China and India to expand their markets and/or to take advantage of the discrepancies in the costs of labor and raw materials. Relocating business activities often results in subtle (and sometimes not-so-subtle) changes in stakeholder relationships. For example, stakeholder relationships mostly governed by an egalitarian ethical system in the United States can become vertical in a Confucian society. These differences call for cultural adaptation of stakeholder management in a host country.

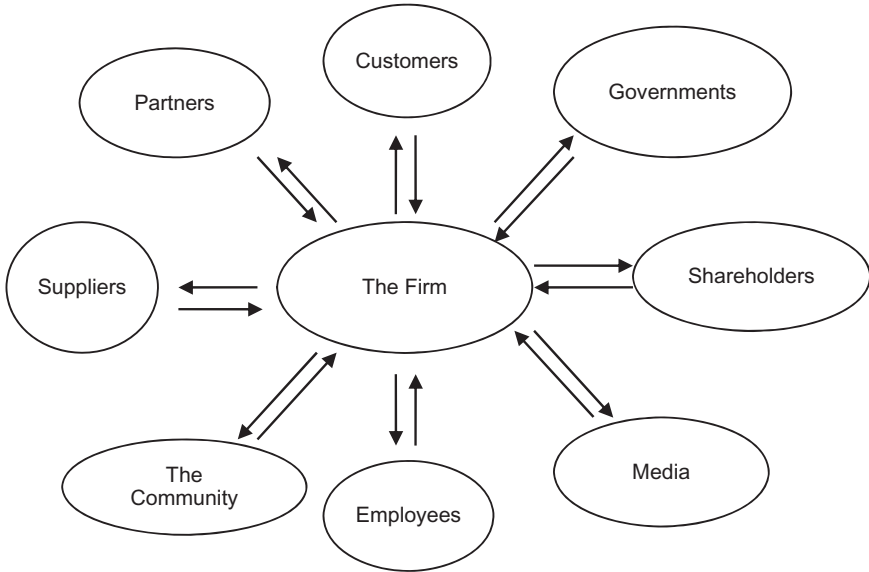
In this article, we argue that Confucianism forms another valid normative basis of stakeholder theory to go along with Western normative perspectives such as utilitarianism, duty-based ethics, and rights-based ethics. Confucian stakeholder theory will provide appropriate moral guidance for corporations managing stakeholder relationships in a Confucian setting. Although contemporary Chinese values derive from a combination of Confucianism, Daoism, Buddhism, and socialist values, Confucianism has been the predominant value system that, with some interruptions in the history, has governed the practical affairs in China for thousands of years. The vast effort to revive Confucianism in China in the past few decades indicates the Chinese people's identification with the value system, as well as their acknowledgement of its merits. In fact, in recent years, academics in the field of business have also shown an interest in Confucianism. For instance, Chan and Romar both argue for the relevance of Confucianism in business ethics (Chan 2008; Romar 2002); Ip constructs a Confucian firm using Confucian concepts (Ip 2009). Miles and Goo make a case for the necessity and pertinence of applying Confucianism in corporate governance in Confucian societies (Miles and Goo 2013). Kit-Chun goes a step further to explore an interaction between a Confucianism-based culture and the economy (Kit-Chun 2003). This article attempts to further contribute to the stream of inquiries by establishing a link between Confucianism and stakeholder theory.

Stakeholder theory and management sometimes entail treating the corporation as a person. In modern American jurisprudence, the corporation has been treated as an autonomous, right and duty bearing person, protected by the due process clause of the fourteenth amendment (Mark 1987). In recent decades, the personification of the corporation has been explored and accepted by moral philosophers and business ethicists in their examination of and debate over the moral responsibilities of the corporation (e.g., French 1979; Moore 1999). The legal view of the corporation as a person has been reinforced by two recent controversial U.S. Supreme Court decisions, in the “Citizens United” and “Hobby Lobby” cases. In his article entitled “The corporation as a moral person,” French argues that each corporation has a distinctive Corporate Internal Decision Structure, which allows “redescription of events as corporate intentional” (French 1979). This intentionality of corporate events renders the corporation a moral person or agent (see also French 1995; Moore 1999). More recently, the notion of corporate personhood has been expanded to encompass corporate citizenship (e.g., Moon et al. 2005). For the purpose of this article, we focus on the moral personhood of the corporation, as citizenship has different connotations in the political and economic system of China.

In the following sections, we first briefly present stakeholder theory. We then explain why Confucianism constitutes a valid normative basis for stakeholder theory. After that, we apply Confucianism to major stakeholder relationships. Finally, we conclude with some caveats and point to the significance of Confucian stakeholder theory.

STAKEHOLDER THEORY

Since the publication of the seminal work by Freeman (1984), stakeholder theory has gained general acceptance among management scholars, as an advancement of thinking in strategic management and in business ethics. Departing from the traditional shareholder view of the firm (see Friedman 1970), stakeholder theory sees the corporation vis-à-vis its relations to its multiple constituencies—stakeholders—on the basis that its actions directly or indirectly affect them and that the corporation

FIGURE 1 Stakeholder Relationships.

in turn can be affected by stakeholder activities as well (Freeman 1984). The stakeholders include primary stakeholders and secondary stakeholders. Primary stakeholders engage in direct economic transactions with a firm; they can directly affect the performance of a firm and, at the same time, can be directly affected by the firm's actions. These stakeholders include shareholders, employees, customers, suppliers, and partners. Secondary stakeholders, on the other hand, do not usually engage in direct economic transactions with the corporation but can influence, or are sometimes influenced by, the corporation's actions. These include the media, the government, the community, and special interest groups. In short, stakeholder theory recognizes the interdependency between the corporation and its multiple stakeholders, instead of only its stockholders. Stakeholder relationships are frequently illustrated diagrammatically, as in Figure 1.

Despite some "critical distortions" and "friendly misinterpretations" as delineated in Phillips et al. (2003), stakeholder theory

has generally been embraced by business scholars because of its “descriptive accuracy,” “instrumental power,” and “normative validity” (Donaldson and Preston 1995). First, it aptly describes how a firm operates: it interacts with various groups of stakeholders in its daily operations. In addition to stockholders, to which the shareholder view of the firm attaches primary importance, stakeholder theory correctly recognizes and acknowledges the stakes/interests other groups have in a firm. For instance, employees have an interest in the survival and good performance of the firm they work for, because their pay, job security, pension, and career advancement are closely tied to them. As a result of these stakes, employees constitute an important stakeholder group as well, just like stockholders.

Second, stakeholder theory is justified by its pragmatic or instrumental value, as it recognizes that attending to the interests of diverse groups of stakeholders may lead to improved firm performance as measured by traditional measures such as profitability and stock price. For instance, if a firm does not attend to the interests of employees and instead treats them only as instruments for firm performance, they can become de-motivated, disengaged, and counterproductive. Some empirical studies also support the instrumentality of the stakeholder theory (e.g., Bartkus et al. 2006; Berman et al. 1999; Hillman and Keim 2001; Moneva et al. 2007; Ogden and Watson 1999). In particular, Hillman and Keim (2001) found that stakeholder management practices that took stakeholder interests into account led to improved shareholder value.

Finally, the most fundamental and compelling justification of stakeholder theory is normative in that, in its most basic form, it recognizes the moral rights of the stakeholders, due to their status as human beings, which must be respected as ends in themselves (Evan and Freeman 1988; Gibson 2000). In distinguishing among stakeholder groups, Phillips et al. (2003) refers to those groups of stakeholders that a firm has direct moral obligations to as normative stakeholders, while others as derivative ones. This distinction generally parallels that of primary versus secondary stakeholders. Stakeholder theory is thus further delimited to encompass mostly normative stakeholders (Phillips et al. 2003). Other scholars have also justified stakeholder theory on such normative grounds as property rights, integrative social

contracts theory, doctrine of fair contracts, and feminist ethics, among others, as listed in Phillips et al. (2003).

The above-mentioned diverse normative justifications indicate that stakeholder theory can accommodate multiple moral perspectives; however, its normative justifications so far have derived mostly from Western ethical systems. In this age of globalization where firms everywhere have stakeholder relationships, it seems only appropriate to also have culturally relevant normative justifications. Along this line of thought, we submit that Confucianism forms a solid moral basis for stakeholder theory, which can suitably guide stakeholder management in a Confucian context. We explicate this proposition in the next section.

CONFUCIANISM

Over the past two thousand years or so since Confucius gave coherent expression to the Confucian tradition, Confucianism has experienced the vicissitudes of fate, alternating between at times being enshrined and at other times being denounced and demonized. Despite that, it still remains a central value system in China and other East Asian countries such as Japan, South Korea, Singapore, and Vietnam. In the wake of the Great Cultural Revolution, when Confucianism was purged, Tu Wei-Ming, a distinguished Confucian scholar, correctly presaged the revival of Confucianism in China (Tu 1979, p. xviii). Today, Confucianism is indeed experiencing a revival and ascendancy as a major traditional value system (see Miles and Goo 2013; Mooney 2007; Osnos 2007).

In the course of its evolvement, Confucianism has been further developed by later disciples and scholars such as Mencius and those in the Song-Ming period. The four books, *Great Learning*, *Doctrine of the Mean*, *Analects*, and *Mencius* (selected by Zhu Xi, a leading Confucian scholar in the Song Dynasty)—represent the central ideas of Confucianism. Confucian core moral elements include *Ren*, *Yi*, and *Li* (see Ip 2009). A distinctive contribution that Confucius made is the introduction of the concept of *Ren* as a moral ideal (Tu 1979, p. 5). Rendered in English in various ways such as “humanity,” “benevolence,” “love,” and “human-heartedness,” *Ren* signifies “the virtue of the highest order”

(Tu 1979, p. 6) and the highest state of personal moral cultivation. The following two dialogs between Confucius and his disciples may shed some light on the often-elusive concept:

Fan Ch'ih asked what benevolence is. The Master said, "Love your fellow men" (Analects, 12.22).¹

Yan Yuan asked about benevolence. The Master said, "To return to the observance of the rites through overcoming the self constitutes benevolence. If for a single day a man could return to the observance of the rites through overcoming himself, then the whole Empire would consider benevolence to be his. However, the practice of benevolence depends on oneself alone, and not on others." (Analects, 12.1)

The first dialog reveals *Ren* as love of fellow men. Confucianism, whether in its classical primordial form or in the further-developed neoclassical form that thrived in the Song-Ming period, recognizes the interconnectedness or interrelatedness of all humanity. In fact, etymologically, the Chinese character of *Ren* consists of "two" (二) and "person" (人), meaning a person living with other human beings. Confucius's teaching of "love" of fellow human beings is based on this recognition. Furthermore, to attain or manifest *Ren*, Confucius advises reining in egoism and selfishness and showing respect and deference to fellow human beings through the "observance of rites," as the second dialog above demonstrates.

Confucius thus provides a unique answer to the age-old philosophical question: how ought one to live? The answer, we infer, is to live in accordance with the moral ideals of *Ren*. Undoubtedly, *Ren* constitutes the centerpiece of Confucian morality. In fact, the concept is later extended to become a metaphysical justification in the Song-Ming period, so that it becomes an ontological end as well (Tu 1979, p. 7).

Hence, *Ren* is the root virtue that gives rise to a great number of other lesser virtues, including for example *Shu* (the Golden Rule). It is externalized as *Li*. Translated into English as "rites," "ceremonies," "propriety," and "decorum," *Li* is "the feeling of respect and reverence" for others (Mencius in Chan trans. and comp., 1963). It is rooted in *Ren*: the "feeling of respect and reverence" and the accompanying ceremonies in any situation

must derive from the fountain of *Ren*, the love of fellow human beings, for *Li* devoid of an underlying *Ren* is but an empty formality.

The other core element, *Yi*, signifies righteousness—an ability to discern right from wrong, good from bad, and appropriateness from inappropriateness in actions and social relationships. The discernment is again rooted in and guided by *Ren*. Although *Ren* and *Li* constitute Confucius's two cardinal virtues, *Yi* holds a key position in Mencius' doctrines (Ip 2009).

In addition to *Ren*, *Yi*, and *Li*, *Zhi* (wisdom) and *Xin* (trustworthiness) represent another two important Confucian virtues. Indeed, the Confucian tradition refers to all of these as the five cardinal virtues. Although these virtues are cultivated through one's own efforts, they are actualized in human relationships. In fact, Confucius envisioned a society of harmonious human relations made possible by individuals cultivating and demonstrating these virtues. Moreover, Confucius famously delineated the five predominant relationships as the context for the actualization of *Ren* and other related virtues: ruler and minister, father and son, elder brother and younger brother, husband and wife, and one friend and another. The manifestation of the virtues becomes specific in each relationship and to each role one occupies. For instance, in the father–son relationship, a father should not love his son with too much indulgence and a son needs to show proper filial piety to his father; both demonstrate *Ren* appropriate for their roles.

Like other major ethical theories, Confucianism has its own limitations. A product of a profoundly patriarchal age, Confucianism is generally a role-based, vertical virtue ethical system (Dubs 1951). In particular, *Ren* is not expected to be manifested in the same way across social hierarchies or stations. For instance, a ruler is expected to be benevolent to the subjects, whereas the subjects are expected to be deferential to the ruler. The vertical nature of *Ren* can further be demonstrated by the virtual invisibility of women in the five relationships, suggesting gender hierarchy and lower status of women. In short, *Ren* in the Confucian age manifestly lacks the egalitarian quality that the modern age espouses.

Yet, much like some other major ethical theories that bear the marks of their times, the essence of Confucianism, with its

emphasis on humaneness, remains a priceless baby with discardable bath water—*Ren*, the cornerstone Confucianism, in fact can be adapted to accommodate modern human relationships, so that “love your fellow men” (*Analects*, 12:22), for instance, becomes “love your fellow human beings.” Though it is a formidable task to adapt some deeply ingrained aspects of Confucianism to modern-day moral sentiments, especially where gender equality is concerned, it falls on the shoulders of contemporary Confucian scholars to reconcile antiquity with modernity and reinvigorate Confucianism. However, the fact that Confucianism is still a dominant belief system in many East Asian countries, Japan included, may attest to its malleability.

CONFUCIANISM AS A MORAL BASIS FOR STAKEHOLDER THEORY

In this section, we argue for the pertinence of Confucianism as a moral basis for stakeholder theory in Confucian settings, based on two major reasons. First, Confucianism shares core commonalities with other major ethical theories; and second, Confucianism emphasizes symbiosis of human relationships.

In describing the basic elements of moral philosophy, Rachels and Rachels (2010) describe the minimum conception of morality as follows:

Morality is, at the very least, the effort to guide one’s conduct by reason—that is, to do what there are the best reasons for doing—while giving equal weight to the interests of each individual affected by one’s decision. (p. 13)

In short, “reason” and “impartiality” are the fundamental yardsticks for judging the validity of a moral theory (Rachels and Rachels 2010, pp. 10–13). Major Western ethical theories, such as utilitarianism and Kantian ethics, though still debated among moral philosophers, pass this basic test and have been widely applied in business ethics.

Though non-Western moral theories are not explicated in *The Elements of Moral Philosophy* (Rachels and Rachels 2010), the moral validity of Confucianism can be established with the two criteria provided there. Based on the recognition of human

coexistence or cohabitation, Confucius provides a general moral principle of love of one's fellow human beings. This moral principle becomes the justification and at the same time yardstick of one's actions toward others. Consequently, Confucianism, particularly the concept of *Ren*, meets the first minimum criterion of "reason." Moreover, although advocating love of fellow human beings, Confucius and his followers also counsel individuals to overcome self or selfishness and act with propriety toward others (see *Analects*, 12.1); Confucian *Ren* places other people's interests on a par with one's own interests. Thus, it meets the second minimum criterion of "impartiality." Additionally, Confucianism goes beyond these moral minimums and advises actively promoting the well-being and moral cultivation of others (see Ip 2009). For these reasons, Confucianism stands as a valid and valuable moral concept. In stakeholder relationships, stakeholders are groups of human beings with stakes in a firm (Phillips et al. 2003); the firm as a coexisting moral person—the Confucian firm—has an obligation to treat them with humaneness and benevolence. Confucian *Ren* thus forms a sound normative basis for stakeholder theory (see also Miles and Goo 2013).

Furthermore, Confucianism also normatively befits stakeholder theory because of its emphasis on symbiotic social relationships. An important value of Confucianism is social order based on harmony in social relationships, achieved by the cultivation of Confucian virtues in individuals. The modern Chinese society sees more complex social relationships than the Confucian five-relationship society. A pronounced addition to the modern society is the ubiquitous presence of business firms, accompanied with their stakeholder relationships. Whereas it has gone through enormous economic transformations in recent decades, the Chinese society still prizes social order undergirded by harmonious social relationships. As stakeholder relationships have become a significant part of the modern social fabric, symbiosis in these relationships will undoubtedly contribute to the overall harmony and well-being of the society. Such symbiosis can be achieved when both firms and their stakeholders treat each other with Confucian virtues such as *Ren*, *Yi*, *Li*, *Zhi*, and *Xin*. In short, Confucianism constitutes the moral basis of symbiotic stakeholder relationships, which are also highly valued by modern firms.

Of course, the actualization of Confucian virtues in social relationships depends on their cultivation in individuals, or firms in our case. In daily life, one frequently reads in the news about some firms defrauding customers with harmful products. Yet, these incidents do not repudiate the validity of Confucianism as a moral basis; they only indicate the urgent need of moral guidance and cultivation for some firms in handling their stakeholder relationships. Given the important moral status of Confucianism in the Chinese history, a general sense of moral crisis in current China, and the recent governmental efforts to revive Confucianism (see Miles and Goo 2013), Confucian-based stakeholder theory provides a welcome and fitting normative framework for firms dealing with stakeholder relationships. In fact, in discussing corporate governance in a Confucian setting, Miles and Goo (2013) also indicate the relevance of Confucian values in stakeholder relationships.

CONFUCIANISM IN STAKEHOLDER RELATIONSHIPS

The above analysis assumes Confucian personhood of the firm. A Confucian moral person is a *Junzi* (gentleman or morally cultivated person); similarly, a Confucian firm is a *Junzi* firm, whose goals, strategies, structure, decision-making processes, and stakeholder relationships are shaped by Confucian ideals (Ip 2009). Specifically, it acts with humaneness toward its stakeholders and forms symbiotic relationships with them. In this section, we illustrate the application of Confucianism in major stakeholder relations assuming Confucian moral personhood of the firm. Although stakeholder groups all have their stakes in a corporation as the name implies, the nature of the stakes varies across stakeholder groups and situations. Confucianism, being a situational ethic (Romar, 2004), requires discernment of the nature of the stake in each situation and demonstration of virtues appropriate for it. Naturally, the virtues we apply in each stakeholder relationship are *prima facie* ones and can be overridden and/or supplemented by other, more relevant virtues in particular circumstances. Furthermore, as the relations go both ways in stakeholder theory, for the purpose of this article, we focus our application mostly in one direction, namely, the firm toward its

stakeholders. The major stakeholder relations analyzed here include those between a firm and its employees, shareholders, consumers, partners, the community, and the government.

The Firm and Its Employees

In this relationship, the firm should manifest humanity or benevolence toward its employees as a general concern for their welfare, in a manner compatible with satisfying the different levels of needs as described by the Western scholar, Maslow. In particular, a firm needs to strive to satisfy their higher level needs such as job satisfaction, sense of belonging, personal growth, and respect, as well as their lower level needs such as physiological needs and safety needs (Maslow 1954). As a paternalistic figure, the Confucian firm takes care of its employees as if they were its children (see also Miles and Goo 2013), creating conditions for them to flourish in various ways, while striving to achieve its organizational goals.

Conversely, a firm purely driven by profits and guided by the amoral principles of market forces may act in a manner that embodies the very antithesis of benevolence or human-heartedness toward its employees. Subjecting employees to health-threatening, “sweatshop labor” conditions is indicative of a deficiency in Confucianism’s love of fellow human beings. For instance, when confronted with public protests over its sweatshop practices in developing countries, Nike’s initial defense was that Nike itself did not make shoes, it only marketed them, and that furthermore the practice of its subcontractors were in conformity with local norms and legal standards, which apparently fell short of Confucian humanitarian ideals. Perhaps even worse was the more recent response of Foxconn to criticisms that harsh working conditions in its factories were leading to worker suicides. Like Nike’s representatives, Chairman Guo of Foxconn also contended that his company broke no laws. Foxconn officials even alleged that workers were committing suicide for financial reasons so that their families could collect compensation. The company also dealt with the problem by installing nets around company dormitories to prevent workers from killing themselves by jumping from windows and balconies and requiring workers to sign pledges not to commit suicide (see Myslewski 2010; Stewart 2012; Su and He

2012). Such a firm is a far cry from the ideal type of a Confucian firm that Ip constructs (Ip 2009), as it ignores the normative stakes of the employees in the firm and acts in an apathetic, cold-blooded manner toward them.

The Firm and Its Shareholders

From the transactional point of view, shareholders provide the firm with their money for the purpose of growing it with the firm; a firm, in turn, cannot function properly without the critical financial resources that shareholders provide. In this sense, the firm has a fiduciary duty toward its shareholders who entrust it with the care of their money: it has the responsibility to promote the shareholders' interests—their financial stake in the firm—with competent and principled management. From a Confucian point of view, a firm needs to cultivate *Xin* (translated as trust, trustworthiness, integrity) with its shareholders. Confucius has the following saying about *Xin*:

The Master said, “I do not see how a man can be acceptable who is untrustworthy in word. When a pin is missing in the yoke-bar of a large cart or in the collar-bar of a small cart, how will the cart be expected to go?” (Analects, 2. 22)

Similarly, a business is like a cart: it cannot move steadily forward without gaining trust of its shareholders, the pin holding it together. This trust, *Xin*, is built on both competence and integrity: the former demonstrates itself in effective strategies and tactics and in their execution while the latter reveals the ethics of the strategies and tactics and their execution (or *Yi*, a sense of appropriateness of actions). A firm that has established *Xin* with its shareholders usually enjoys a good reputation and as a result can attract even more investors. However, the business world is littered with broken carts because of missing pins, *Xin*, due to deficiency in either competence or *Yi*, or both. For instance, Sanlu, the once-respected dairy products producer in China fell into infamy and ruin in early 2000 because it failed to handle the infant milk scandal with integrity (Wu and Davidson 2011); Enron, which once ranked seventh on the Fortune 500 list, was led to financial ruin by management's blatant disregard for ethics and its recklessness in strategic decisions. As a result, the failings

of these companies eroded or wiped out the investment value of their shareholders. In short, *Xin*, built on managerial competence and good ethics, was absent in these cases; the companies failed to fulfill their fiduciary duty toward the shareholders.

The Firm and Its Consumers

A firm provides goods and services to consumers, who make decisions regarding which goods and services to purchase with their money. This transactional relationship requires the firm to demonstrate *Shu*—the Confucian Golden Rule. Given that a firm often holds asymmetrical information and wields disproportionate power in the marketplace, the Confucian rule aptly applies to this relationship:

Tzu-Kung asked, “Is there a single word which can be a guide to conduct throughout one’s life?” The master said, “It is perhaps the word *Shu*: Do not impose on others what you yourself do not desire.” (Analects, 15.24)

This (negative) duty-oriented Golden Rule provides moral grounding for the firm to avoid misleading, deceiving, or injuring customers when selling its products or services to them. It advises manufacturers to produce reliable and safe products and service providers to be transparent with their services and fees, as this is how one would like to be treated as a customer. The wave of unsafe products that were manufactured in China in recent years such as toys with lead-based paint, tainted milk powder, and toothpaste containing a dangerous additive (see the Boston Globe 2008 on-line edition: http://www.boston.com/business/gallery/china_watchlist/) for example, reveals violation of the Confucian Golden Rule and a disregard of consumers’ interests and well-being. In short, a firm practicing the Confucian Golden Rule and human-heartedness would not mislead or harm its customers; instead it should enhance their well-being.

The Firm and Its Partners

Since the success of a cooperative relationship or alliance depends, to a large extent, on mutual trust, a firm in such a

relationship needs to again demonstrate *Xin* (trustworthiness) with its partners. *Xin* draws on the fountain of *Ren*. In describing moral cultivation, Confucius distinguished between *Junzi* (morally cultivated persons) and *Xiaoren* (morally dubious persons): gentlemen cultivate *Ren* for its own reward and *Xiaoren* may exploit *Ren* for selfish ends, as demonstrated in the following passage:

The Master said, “The gentleman is versed in what is moral. The small man is versed in what is profitable.” (Analects, 4.16)

The Confucian *Junzi* is benevolent, fair, and trustworthy. Similarly, a firm that embodies the characteristics of a *Junzi*—a Confucian firm—is honorable in its dealings with its partners. In contrast, an immoral *Xiaoren* firm may betray a partner in a profitable relationship for even greater reward, should an opportunity present itself. *Xiaoren*, in short, is a self-seeking opportunist devoid of genuine Confucian virtues. Firms that demonstrate the characteristics of a *Xiaoren* make poor partners and threaten the welfare of those they collaborate with. In short, in a partnership, a Confucian firm does not use the partner exclusively for its own gain; it considers the interests of the partner just as important as its own and promotes both. By doing so, it gains the reputation of *Xin* (trustworthiness), which will enable it to form even more good-quality partnerships.

The Firm and Its Community

Confucians strived to build a harmonious society with *Ren* as the fundamental connection among its members in their social relations. The introduction of the market economy along with the emergence of powerful corporations, however, sometimes seems to pose a threat to the social harmony that Confucius envisioned. This threat lies in, for instance, migration of farmers to cities often to be exploited and sometimes abused by the factories they work for, as illustrated above in the Foxconn case; degradation of the environment due largely to lax environmental standards; and increasingly unequal distributions of wealth and income among members of the society. Although the market economy has increased the living standard of the society in general, the quality

of life, including that which derives from harmonious human relations, may have deteriorated in certain respects. Seen in this light, the firm as a major actor in this new economy has a general obligation to address these issues, particularly as many of the problems are directly caused by its actions. In particular, a firm needs to be a constructive member of the community it operates in, as the well-being of the community—the people who live in it—can be harmed and/or enhanced by its presence. The following passage is instructive of a firm's moral obligation in the community:

. . . Now, on the other hand, a benevolent man helps others to take their stand in that he himself wishes to take his stand, and gets others there in that he himself wishes to get there. (Analects, 6.30)

Whereas the Golden Rule mentioned previously is characterized by a negative duty orientation, the above passage advises one to exercise positive duty toward others—helping “get others there” while striving to achieve one's own goals. With the amount of resources at its disposal, a profitable firm can help improve the welfare of the local community in many ways, including, for instance, improving educational quality and providing donations to meet local needs. Furthermore, considering that a firm also benefits from the local community in terms of labor, talent, public services, and other resources, giving to the local community is also justified on moral grounds of reciprocity. At the minimum, they should follow the Confucian (negative duty oriented) Golden Rule and not harm the welfare of the local community by such actions as air/land/water pollution. Aside from that, a Confucian firm exists in symbiosis and in the spirit of mutual advancement with the community.

The Firm and the Government

China has, in recent decades, transitioned from a socialist political-economic structure to a unique market economy with its socialist political structure intact. In spite of the one-party political system, Confucianism fittingly applies to the relationship between the firm and the government. *Ren* on the part of the

government lies in its general intent to foster a constructive social role of the firm. This intent can be carried out in the form of laws and regulations that enhance healthy competition in the marketplace, that encourage socially and environmentally constructive business conduct, and that deter irresponsible and harmful corporate conduct. The role of the firm is to respectfully abide by the laws and regulations that apply to them. Seeking loopholes, bribing public officials to ignore violations, and otherwise circumventing the law are against the Confucian ideal of being a dutiful member of modern society.

However, for various reasons, government and business corruption, especially at local levels, is ubiquitous in China (see, e.g., Minzer 2007; Pei 2007). In a strong signal by party/government leaders of unwillingness to tolerate violations of the public trust, the head of the national food and drug regulatory agency, for instance, was executed in 2007 for allowing unsafe pharmaceuticals onto the market in exchange for bribes. These drugs had resulted in several consumer deaths (Watts 2007). A firm that upholds the Confucian ideal of *Ren* does not, first of all, knowingly harm consumers with unsafe products (see the relationship between the firm and consumers); and second, it does not seek to gain an unfair competitive advantage in the marketplace with such a corrupt scheme (see *Analects*, 12.1). In short, a Confucian firm, when dealing with the government, acts in accordance with Confucian ideals, not the dictates of power and greed.

CONCLUSION

In this article, we have argued for and explicated Confucian stakeholder theory. Originated in the West and justified by various Western ethical theories, stakeholder theory here proves to be supported by Confucianism. Yet, we would like to add some caveats to the Confucian stakeholder theory. Most noticeably, the hierarchical Confucian ethical system can lend itself to unequal treatment of people, as it aims to preserve a social order by maintaining role-based social status. As a result, stakeholder management based on Confucian stakeholder theory may not be able to properly resolve stakeholder conflicts; it may lead to favoring the more socially advantaged stakeholder groups in conflict resolutions.

Furthermore, the subordination of women to men in traditional Confucianism may pose hurdles for female stakeholders in their pursuit of success at the workplace or as business partners. These are the challenges that contemporary Confucian scholars need to wrestle with (see also Miles and Goo 2013). Thus, Confucian stakeholder theory should be interpreted with these limitations in mind.

In spite of these weaknesses, the core of Confucian stakeholder theory does have significant practical implications for both MNCs operating in China and local firms. Uncertain which approach to take when confronting an ethical dilemma in a non-Western setting, MNCs in a host country often resort to either ethical imperialism or ethical relativism to resolve the problem; neither of which provides satisfactory solutions (see Donaldson 1989, 1996; Donaldson and Dunfee 1994, 1999). Confucian stakeholder theory provides MNCs in China with a generally sound local lens through which to view and resolve an ethical issue arising in stakeholder relationships. Furthermore, for Chinese firms, the Confucian stakeholder theory is particularly timely and fitting at this historical junction of Confucian revival. It provides managers with moral direction in a potential maze of complex stakeholder relationships. In conclusion, as China has rapidly established itself as a major world economic power that keeps attracting MNCs to operate in the country and as Chinese firms are increasingly operating on the global stage, Confucian stakeholder theory provides a meaningful addition to the corpus of stakeholder theory and management literature and appropriate moral guidance for these firms. This may be especially helpful to Chinese managers for whom Western notions of moral rights and duties are sometimes hard to understand.

NOTES

1. The quotations from The Analects in this article are from Confucius, 1992.

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