A New Business Excellence Model with Business Integrity from Ancient Confucian Thinking

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ABSTRACT  In this fast-paced world, companies are always trying to find quick solutions, and will focus almost entirely on financial results. However, such undue emphasis on profits makes companies pursue profits with no regard for the means employed. Although this is not necessarily bad, an equally important ingredient to business excellence is seemingly taking the back seat – business integrity. Instilling Confucian thinking into a company can correct the problem because employees will know how to behave appropriately in every situation. A successful company is much like a marathon runner – quite different from a short-distance sprinter – in which integrity is valued. This study has demonstrated the importance of business integrity and turned to Confucian thinking for concrete steps. We also developed a conceptual Confucian business excellence (BE) model and compared it with Kanji’s BE model. Confucian thinking is parallel to Kanji’s BE model, yet still maintains its uniqueness. These findings can provide concrete principles for companies striving for business excellence.

KEY WORDS: Confucius thinking, Confucianism, business integrity, Kanji’s business excellence model

Introduction

Many people believe that the premier goal of an organization is increased profits. However, the undue emphasis on profit makes companies pursue profits with no regard for the means employed. As such, many companies are now under attack for fraud scandals (e.g. Enron) and their business integrity is being seriously questioned. Moreover, some have noticed that there are many hidden costs within organizations (e.g. if employees are less committed to their companies, they will be less receptive to new ideas, less willing to help others, and less willing to go the extra mile). Such hidden costs make an organization vulnerable and fragile. Some suggest using penalties to eliminate these costs. However, an overemphasis on sanctions can be counterproductive and employees may
rebel against the programme. Thus, we suggest that without business integrity or ethical values, it is challenging to eliminate such hidden costs. Business integrity can passively prevent wrongdoings from occurring, and can also unify an organization.

We all love to work with decent and honest people. In a similar vein, we are more willing to contribute our efforts and energy to organizations that have high virtues, and we dislike stingy or mean-spirited organizations. Business integrity or ethical values can serve as guiding principles to enlighten, inspire, move and motivate people. This makes people willing to self-govern themselves according to high standards, hence eliminating the hidden costs. Thus, ethical values provide a unifying force across different functions, lines of business, and employee groups, and help define what a company is and what it stands for (Paine, 1993). Furthermore, by supporting ethically sound behaviour, companies can build reputations on which they can depend. Moment (2004) therefore suggested that without integrity at the helm of a company, a business is usually short-lived. When business integrity becomes the heart and soul of the company’s culture, it can make the difference between a company that succeeds and a company that falters. In recent research performed by the Institute of Business Ethics, it was found that UK companies with codes of ethics outperform in financial and other indicators more than companies that say they do not have a code. The data also indicate that, from 1997–2001, those firms with an explicit commitment to doing business ethically produced profit/turnover ratios 18% higher than those without a similar commitment. As a result, we suggest that to achieve business excellence, companies must also emphasize business integrity.

A number of companies have undertaken integrity initiatives during the past decade, including ASUS, one of the largest motherboard companies; Formosa Plastics Group, the largest private enterprise in Taiwan; and Foxconn, global leader in providing mechanical solutions. One of the well-known examples is TSMC, the world’s largest dedicated semiconductor foundry. At TSMC, business integrity is at the core of the business value and it means: ‘We tell the truth’, ‘We believe the record of our achievements is the best proof of our merit. Hence, we do not brag’, ‘We do not make commitments lightly. However, once we make a commitment, we devote ourselves completely to meeting that commitment’, ‘With competitors, we compete to our fullest within the limits of the law, but we do not slander them in order to gain benefit for ourselves. We also respect intellectual property rights of others’, ‘With vendors, we maintain an objective, consistent, and impartial attitude’ and ‘We do not tolerate any form of corrupt behaviour or politicking. At TSMC, company politics are forbidden.’ At TSMC, business integrity provides a non-negotiable standard for all employees that permits them to say, ‘we will not do this because this goes against our values.’ However, achieving true integrity is not easy because it is not something that can be bought or easily built. Integrity in its essence is ingrained within people. Therefore, success in creating a business integrity mindset requires continuing effort and considerable investment in time and resources. This study turns to the ancient wisdom of Confucius (i.e. Confucianism) for insight into business integrity. We have developed a Confucian philosophical model for business and have compared it with Kanji’s business excellence (BE) model.

Confucius was a famous thinker and social philosopher, and is considered as the Premier Saint of China. His teachings, preserved in Lunyu or Analects, deeply influenced East Asia for 20 centuries. Living in times of trouble, he was trying to restore the world’s order by teaching how an individual should lead his live and interact with others. Confucius taught emperors how to successfully rule their kingdoms. In a similar vein, the soul of
a company can be cultivated through instilling Confucian thinking. This will encourage employees to care passionately about business integrity and know how to behave appropriately in every situation.

**The Importance of Business Integrity**

There are at least three benefits for firms emphasizing business integrity: (1) developing a loyal relationship with all stakeholders; (2) cultivating valuable social capital; and (3) attracting integral stakeholders.

When companies value business integrity, they will care for all stakeholders and perform with decent conduct (e.g. respect for the rights of others, honesty, fair dealing and obedience to the law). As such, long-term relationships with customers and employees will be developed, forming the bedrock of business excellence. Reichheld (2001) suggested that the greater the loyalty a company engenders among its customers, employees, suppliers and shareholders, the greater the profits it reaps. Unlike formal contracts, business integrity is deeper in that it enlightens, inspires and motivates the human inner need to be respected and honoured. Business integrity can serve as a guiding value that impacts employee thoughts and actions, making employees more loyal, more likely to obey a superior’s requests beyond their formal duties. Employees tend to perceive a sense of pride and accomplishment when working for a company with integrity.

A company that values business integrity is more likely to build wealthy social capital (e.g. trust). Trust has often been seen as an informal self-enforcing agreement alternative to formal governance mechanisms (Dyer & Singh, 1998). It reduces the probability of opportunism and the need for costly monitoring mechanisms, encouraging cooperative behaviour. As a result, trust promotes the exchange of a range of specific assets, such as knowledge, information and supports, which are difficult to put a price on (McEvily et al., 2003). That is, people are likely to help one another in a culture with integrity because when they help others, others help them in return. People will not take advantage of others because an actor’s integrity signals to other parties his willingness to repay the social liability. Failing to do so would damage his reputation. Such social capital can eliminate the hidden costs by reducing the probability of opportunism and the need for costly monitoring mechanisms. Companies must try their best to protect and cultivate integrity.

There is a saying, ‘birds of a feather will gather together.’ Companies that value integrity will attract customers with integrity, decent employees and honest business partners. Although in the short term, these companies might lose business because they will forego some unethical business and risk being taken advantage of by others; in the long run, their insistence on integrity will pay off because their reputation will attract more business, the best employees and form long-term relationships with stakeholders.

**Confucius Thinking**

Achieving true integrity is not easy because it is not something that can be bought or easily built and it is not something one can fool people about. Integrity in its essence is ingrained within people. Therefore, this study turns to the ancient wisdom of Confucius for insight into business integrity. Living in times of trouble, the main concern of Confucius was to establish harmony in a society. His thoughts emphasized personal and governmental
morality, correctness of social relationships, and justice and sincerity. These values gained prominence in East Asia.

Rén, Yì, and Learning

Confucius’ social philosophy largely revolves around the concept of rén – benevolence, charity, humanity, love, or kindness. Régn forms the fundamental virtue of Confucianism. For Confucius, such concern for others is demonstrated through the practice of the forms of the rule: ‘What you do not wish for yourself, do not do to others.’ Or as the Analects tell us:

Yan Yuan asked about rén. The Master said, ‘To subdue one’s self and return to propriety, is rén. If a man could for one day subdue himself and return to propriety, everyone under Heaven would ascribe rén to him. Is the practice of rén from a man himself, or is it from others?’ Yan Yuan said, ‘I beg to ask for more detailed steps.’ The Master replied, ‘Look not at what is contrary to propriety; speak not what is contrary to propriety; make no movement that is contrary to propriety.’ Yan Yuan then said, ‘Though I am not clever, permit me to try to put these percepts into practice.’

Confucius also encouraged man to be virtuous and right. Yì means right conduct, morality and righteousness. The Analects tell us: ‘A gentleman is aware of yì, an inferior man is aware of advantage.’ While the essence of Confucianism seems to be the limitation of self-interest, in fact, it emphasizes mutual profitableness. That is, following Confucian teachings, the ideas of love for others, respect, right conduct and mutual obligations can help build a society in which people help each other voluntarily.

To act properly, Confucius believed that learning is indispensable and he emphasized thinking, reflection, and taking actions. The Analects tell us: ‘Learning without thinking is useless. Thinking without learning is dangerous.’

Leadership

Thomas Carlyle, 19th-century philosopher, said, ‘A man lives by believing in something, not by debating and arguing about many things.’ Thus, we believe that the main job of top management is to create the spirit and the soul of an organization (business integrity) so that employees are willing to believe in the guiding values of an organization. As such, a company is not merely to place to make money, but a place to feel belonging and to be proud of. People long for recognition, respect and love. A good leader will do his best to provide these things and enable his followers to lead a life with vision.

Leaders need to understand that to create the spirit and the soul of an organization is more than public relations rhetoric or motivational hype. The only way to create it is through their actions and making tangible commitments. One of the classic examples is Johnson & Johnson’s response to the Tylenol poisoning incident.4 When Johnson & Johnson was faced with this situation it had to make tough decisions. Rather than think in financial terms, however, then CEO James Burke immediately turned to the company’s Credo – ‘We believe our first responsibility is to doctors, to nurses and patients, to mothers and fathers and all others who use our products and services’ and decided to do a nationwide
recall of Tylenol capsules to avoid further loss of life from product tampering. Here we see a corporate leader, guided by the beliefs and values that define the culture of his corporation, communicating with clear and forthright messages to adhere to the company’s values without regard to any cost incurred. Thus, a business leader’s sincerity and serious emphasis on integrity can serve as a catalyst to give life to an organization’s guiding values.

Confucius political philosophy is also rooted in his belief that a ruler should: (1) learn self-discipline and demonstrate superior personal virtues. Confucius said, ‘If the ruler himself is upright, his people will do their duty without orders. However, if the ruler is not himself upright, although he may order, they will not obey.’ Confucius also said, ‘He who exercises government by means of his virtue may be compared to the north polar star, which keeps its place and all the stars turn towards it.’ Confucius thought that government by laws and punishments could keep people in line, but government by example of virtue and good manners would enable the people to become good. The rule said, ‘If you govern the people by laws and punishments, they will try to avoid the punishments, but have no sense of shame. If, on the other hand, you govern the people by virtue and the rules of propriety, they will have a sense of shame, and moreover will become good’. And (2) a leader should lead an exemplary life. Confucius noted, ‘Go before the people, work hard and encourage them to follow.’ Finally, good leadership usually makes people willing to accept some short-term pain to increase the long-term benefit. The rule said, ‘Do not hurry to get things done. Do not be intent on minor advantages. If you are in a hurry to get things done, things will not be done thoroughly and well. If you are intent on minor advantages, you will never accomplish great things.’

**Confucian Model for Business**

It is now possible to use the above principles to develop a conceptual Confucian model for business (see Figure 1). The critical success factors are leadership, delight the customer, focus on fundamentals, people-based management and continuous improvement in order to achieve business excellence.

![Figure 1. Confucius model for business](image-url)
to achieve the best result (i.e. business excellence). This model can serve as a guide for management to realize how to bring success to an organization. Everyone in the organization can also know how to join in the implementation process. Moreover, this model can be applied to any form of organization, including government.

In terms of leadership, Confucius emphasized that a leader should learn self-discipline and demonstrate superior personal virtues, lead an exemplary life, and focus on the long-term benefits. In doing so, people will self-govern themselves in accordance with a set of guiding principles and work as a unifying force.

In terms of delighting the customer, Confucius emphasized that people should love and respect others and exhibit integrity and fairness. These ideas can be applied to the business context in that customers are valued and will therefore become delighted. Confucius said, ‘When there is good government in a country, the people at home are happy, and the people from other countries will come.’ That is, delight your current customers and you will attract more potential customers through the word-of-mouth effect.

In terms of focusing on fundamentals, Confucius said, ‘A gentleman devotes himself to the fundamentals. When the fundamentals have been established, right courses and virtue naturally evolve.’ Here the fundamental means rén and yi. Moreover, the fundamental can also mean the root of a problem. Confucius challenged his disciples to see the fundamentals for any problem. He said, ‘When I demonstrate one angle and he cannot bring me back to the other three, I will not repeat that lesson.’ ‘To acknowledge what is known as known, and what is not known as not known is truly known.’ ‘Exploring the old and deducing the new makes a teacher.’ Focusing on fundamentals is also important in business because many organizations continuously improve within the current set of initial conditions and current framework of beliefs. However, when radically new capabilities must be developed, these firms often fall into competency traps, as their core competencies become core rigidities (Leonard-Barton, 1992). Thus, firms must follow double loop learning and ask fundamental questions to modify underlying norms and break traditions in meeting the new challenges.

In terms of people-based management, Confucian thinking largely revolves around people, such as the concept of rén (to love others) and yi (to do what is right instead of what is of advantage). He believed that if a government cares less about its peoples’ interest and more about its own self-interest, eventually its people will turn against it. In a similar vein, if a company emphasizes only the company’s narrow self-interest, it eventually might lose the commitment of employees, hence failing the company. As such, the role of people is vital in Confucius thinking.

Confucius believed that continuous improvement is important. People have constantly to reflect on how to improve themselves. For example, he said: ‘When you see a man of worth, think how to rise to his level. When you see an unworthy man, look within and examine yourself’ and ‘Even when walking in a party of three, I can always be certain of learning from those I am with. I will follow their good qualities and avoid bad qualities’. That is, whomever you meet, reflect on how to become better.

**Business Excellence Model**

For the development of his BE model, Kanji (1998) has synthesized the critical components of TQM prescribed by eminent quality practitioners such as Juran, Deming, Crosby, Garvin, Feigenbaum, Ishikawa and Taguchi. Kanji’s BE model is based on
well-established theories and statistical methods for measuring organizational excellence and it has been used by organizations in Europe and Asia (Kanji, 2003). Hsu & Shen (2005) further verify that the concept of the Kanji’s BE model in many ways is similar to the ideas of knowledge management. Thus, we believe that Kanji’s BE model represents a comprehensive systems thinking. A simple introduction to Kanji’s BE model is given below.

To achieve organizational excellence, people must know what to do and how to do it. Kanji (1998) suggested a set of governing principles:

1. Delight the customer;
2. People-based management;
3. Continuous improvement;

Each principle can be further translated into practice using two core concepts (i.e. concepts show how to make the principle happen.) These concepts are:

1. Customer satisfaction;
2. Internal customers are real;
3. All work is a process;
4. Measurement;
5. Teamwork;
6. People make quality;
7. Continuous improvement cycle;

Based on the above discussions, a pyramid of Kanji’s BE model to incorporate all the principles and core concepts can be derived (see Figure 2). Leadership is the base and the ‘prime’ of the model. The prime (leadership) identifies the importance of the model in the sequence of prime – principles – core concepts – business excellence.

Comparisons between Kanji’s and the Confucius BE Model

Leadership. In Kanji’s BE model, leaders set and communicate a clear direction for their organization. In doing so, they unite and motivate people by defining the mission and allocating resources.

Confucius emphasized that a ruler should learn self-discipline and demonstrate superior personal virtues, lead an exemplary life and focus on the long-term benefits. Thus, in terms of principles of leadership, Confucian thinking is similar to Kanji’s BE model.

Delight the customer. ‘The customers’ in Kanji’s BE model refers to both internal and external customers. Many authors have referred to the customer/supplier chain and the need to get internal relationships working to deliver enhanced value to satisfy the external customer. ‘Delight the customer’ means being best at what matters most to customers, and this changes over time. Being in touch with these changes and delighting the customer now and in the future is an integral part of Kanji’s BE model. The definition of quality (i.e.
satisfying agreed customer requirements) relates equally to internal and external customers.

Confucius emphasized that people should love and respect others and exhibit integrity and fairness. These ideas can be applied to the business context in that customers are valued and will therefore become delighted.

**Management by fact.** In Kanji’s BE model, knowing the current performance levels of the products or services in the customers’ hands and of all employees is the first stage of being able to improve. If we know where we are starting from, we can measure our improvement. Giving that information to people so that decisions will be based upon fact rather than gut feelings is essential for continuous improvement.

Instead of emphasizing the importance of fact very much, Confucius focused on the **fundamentals**.

**People-based management.** TQM is knowing what to do, how to do it and getting feedback on performance to encourage and motivate people to take responsibility for the quality of their own work. Business excellence is maximized through employee contributions and involvement. The role of people is therefore vital in Kanji’s BE model.
Continuous improvement. In Kanji’s BE model, total quality cannot be a quick fix or a short-term goal that will be finished when a target has been met. Total quality is not a programme or a project. It is a management attitude and process that recognizes that, however we improve, our competitors will continue to improve and our customers will expect more from us.

Confucius believed that continuous improvement is important. People have constantly to reflect on how to improve themselves.

Results orientation. In Kanji’s BE model, excellence is achieving results that delight all the organization’s stakeholders (this includes employees, customers, suppliers, society in general and those with financial interests in the organization).

Living in times of trouble, the main concern of Confucius was to establish harmony in a society. Following his teachings, the ideas of loving one another, respect, right conduct and mutual obligation can build a world to ‘comfort the aged, be faithful to friends and cherish the young properly.’ As a result, Confucian thinking is similar to Kanji’s BE model in that excellence involves delighting all the organization’s stakeholders, including employees, customers, suppliers and society. Management today overemphasizes personal profit at the expense of the benefits of others. This is dangerous because many fraud scandals might arise. Instilling Confucian thinking into a company can correct the problems. We summarize our discussions in Table 1.

Conclusion
In this fast-paced world, companies are always trying to find quick solutions and they focus almost entirely on financial results. However, such undue emphasis on profits makes companies pursue profits with no regard for the means employed. Although this is not necessarily bad, an equally important ingredient to business excellence is seemingly taking the back seat – business integrity. Instilling Confucian thinking into a company can correct the problem because employees will know how to behave appropriately in every situation. A successful company is much like a marathon runner – quite different from a short-distance sprinter – in which integrity is valued.

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Table 1. Similarities and differences between Kanji and Confucius BE model
This study demonstrated the importance of business integrity and turned to Confucius for concrete steps. We also developed a conceptual Confucius BE model and compared it with Kanji’s BE model. Confucian thinking is parallel to Kanji’s BE model, yet still maintains its uniqueness. These findings can provide concrete principles for companies striving for business excellence.

(1) **Leadership**: a leader should learn self-discipline and demonstrate superior personal virtues, lead an exemplary life, and focus on the long-term benefits. Managers must acknowledge their role in shaping organizational ethics to give life to an organization’s guiding values, to create an environment that supports ethically sound behaviour. In doing so, people will self-govern themselves in accordance with a set of guiding principles and work as a unifying force.

(2) **People-based management**: a company must emphasize interest in its employees so that the employees will be willing to accept responsibility for the quality of their work. If a company emphasizes only the company’s narrow self-interest, it eventually might lose the commitment of employees, hence hurting the company.

(3) **Delight the customer**: a company should love and respect all of their customers. Delight your current customers and you will attract more potential customers through the word-of-mouth effect.

(4) **Continuous improvement**: employees should take any opportunity to reflect on how to improve themselves.

(5) **Fundamentals**: a company should keep on challenging its underlying norms or traditions by asking fundamental questions so that the core competencies will not become core rigidities.

(6) **Results orientation**: a company should try to delight all of the organization’s stakeholders, including employees, customers, suppliers and society so that business excellence can be achieved.

**Notes**

1. Enron lied about its profits and stands accused of a range of shady dealings, including concealing debts so they did not show up in the company’s accounts.  
2. [http://www.ibe.org.uk/DBEPsumm.htm](http://www.ibe.org.uk/DBEPsumm.htm)  
3. [http://www.tsmc.com/english/a_about/a01_profile/a0104_business.htm](http://www.tsmc.com/english/a_about/a01_profile/a0104_business.htm)  
4. In the fall of 1982, McNeil Consumer Products, a subsidiary of Johnson & Johnson, was confronted with a crisis when seven people on Chicago’s West Side died mysteriously. Authorities determined that each of the people that died had ingested an Extra-Strength Tylenol capsule laced with cyanide.

**Reference**


