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Confucian Business Practices and Firm Competitiveness: The Case of Sinyi Real Estate

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Abstract Throughout the 20th century, many East Asian societies imported and transplanted the institutional foundations for industrialization and market economies, which has provided for substantial advances in material well-being. However, Confucianism, the predominant basis of traditional Chinese morality since antiquity, has begun staging a comeback in the recent years. Yet it is unclear as to how modern Confucian firms in a market economy will be organized, or how this will affect firm competitiveness. To shed further light on these issues, we examine the extant literature and identify several characteristics associated with Confucian business practice along with their potential impact on firm performance. We illustrate each of these characteristics with a company that explicitly follows Confucian business practice—Taiwan-based Sinyi Real Estate. It is found that, in general, Sinyi Real Estate conforms to the description of Confucian-based business practice that is expounded in the extant literature. However, there are a few surprises.

Keywords Confucianism, Sinyi Real Estate, self-cultivation, collective good, righteousness, benevolent paternalism, competitiveness

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1 Introduction

Recently, there has been an increasing interest in the resurgence of Confucianism in East Asian Societies (Bell, 2008; Bell and Hahm, 2003). This interest has spilled over into the area of business ethics and management with several scholars expressing interest in Confucianism as a possible foundation for leadership and business practices in East Asia in general and China in particular (Chan, 2008; Cheung and Chan 2005; Cheung and King, 2004; Lam, 2003; Romar, 2002). From a Confucian perspective, cultivated businesspersons should place *righteousness* above *profitableness* and organizations have certain obligations to society and organizational stakeholders that come before their own self-interests. In this regard, Cheung and Chan (2005: 47) refer to Confucian-based leadership of Chinese organizations as an *ethocracy* (i.e., ruling by ethical virtues) which emphasizes leaders' moral practice. Yet Confucianism is more than just ethics; Confucian philosophy, as it pertains to business, encompasses numerous aspects of business operations such as leadership, HRM and even organizational structure (Lam, 2003; Romar, 2002; Strudler, 2008).

How will this resurgence of Confucianism affect business practice, and what might be the impact on the competitiveness of individual firms? On the one hand, observers contend that Confucian-based business practices were designed for a simpler, agrarian time and that strict adherence to Confucianism will hinder firm competitiveness. For example, Cheung and King (2004: 246) state that "Confucian scholars can find themselves in a disadvantageous market position if they insist on upholding their moral principles" and that (p. 245) "efforts to do business according to their moral principles can be very costly." Furthermore, it is believed that Confucian emphasis on hierarchy and ritual may lead to paternalistic human resource management practices that can stifle innovation and growth in dynamic or high technology industries (Ahlstrom, Young, Chan and Bruton, 2004; Haley, Tan and Haley, 1998; Tamney and Chiang, 2002). It is perhaps for these reasons that Max Weber, in his pioneering studies on culture and economic growth, refers to Confucianism as a potential hindrance to economic development of Chinese societies (Chan, 2008: 348; Lam, 2003: 258; Weber, 1951; 1952). Ip (2008) goes even further and partially blames Confucian emphasis on in-group and family for Taiwan's pervasive increase in corruption and "crony capitalism."

Yet others pose that "Confucian dynamism" is a cultural driving force for economic growth (Franke, Hofstede, Bond, 1991; Hofstede and Bond, 1988; Lam, 2002; Redding, 1990). For example, Romar (2002: 119) discusses Confucianism at the firm level and states that "Confucianism is a compelling business ethic that can aid management to meet contemporary challenges and opportunities" and (p. 125) "Confucianism can help locate profit in the proper

sequence of effective business processes.” Furthermore, Chen (2001), Cheung and King (2005), Cheng and Liu (1995) and others provide anecdotal and field study examples of successful entrepreneurs that lead their organization along Confucian principles.

Therefore, this study examines business practices based on Confucian philosophy along with their effect on competitiveness. Our setting is based on the largest and most successful real estate agency in Taiwan, Sinyi Real Estate. Sinyi’s founder, Chun-chi Chou is a self-avowed modern-day follower of the teachings of Confucius and he founded the company with “trustworthiness and fair dealing” (*sinyi*, or *xinyi*, in Chinese) as the guiding principles. Unlike other firms that may have parts of the organization based on Confucianism, Sinyi explicitly uses Confucianism in a holistic approach to organizational policies and processes. Over a period of approximately one year, we conducted numerous, in-depth interviews with several Sinyi staff and other organizational stakeholders. In short, while we find clear evidence that Confucian philosophy has influenced Sinyi’s organizational culture and structure, the impact on performance is mixed. We found some instances where strict adherence to Confucian principles has at times kept Sinyi from maximizing short-term profits. Yet Sinyi remains the clear market leader in the Real Estate industry in Taiwan and the Mainland of China.

The remainder of the paper is structured as follows. The next section outlines some of the factors that have led to a resurgence of Confucianism in East Asian societies. This is followed by an examination of the extant literature on how Confucianism affects leadership and business practice around the areas discussed above. A review of the literature identifies four areas of business practice that are thought to be affected by Confucian practice: (1) Confucian code of conduct emphasizes righteousness over profitability; (2) Confucian organization structure emphasizes hierarchy and collectivism; (3) Confucian HRM practices emphasize paternalistic benevolence; and (4) Confucian risk posture tends toward conservatism. Each is explained along with arguments, both pro and con, as to how they may impact firm competitiveness. We then examine these factors in Sinyi Real Estate and see how they affect Sinyi’s competitiveness. Finally, we discuss the extent to which these results are generalizable, followed by limitations, suggestions for future research and a conclusion.

2 Literature Review

East Asian economies historically do not share the Judeo-Christian tradition that has formed the basis of business ethics and morality in the West. Rather, these countries share the common heritage of a keen work ethic and the morality of the *sage* or *superior man* that was espoused by Confucius and other Chinese philosophers of antiquity (Fung, 1948; Lin, 1994; Weber, 1951). During the most

of the 20th century, East Asian societies imported much of the institutional structure, including business leadership and ethics, from developed Western economies in a relatively short period of time. This can cause instability and unintended outcomes. North (1994: 336) discusses why this is the case:

It is the admixture of formal rules, informal norms, and enforcement characteristics that shapes economic performance. While the rules may be changed overnight, the informal norms usually change only gradually. Since it is the norms that provide “legitimacy” to a set of rules, revolutionary change is never as revolutionary as its supporters’ desire, and performance will be different from that anticipated. And economies that adopt the formal rules of another economy will have very different performance characteristics than the first economy because of different informal norms and enforcement.

When societies import “foreign” institutional structures, they may work for a while. However, the underlying philosophical underpinning is more difficult to change, the resulting changes may not persist and there may be pressure for return to the old morality. For example, there are numerous examples of East Asian societies that have adopted Western institutions to rapidly create, in some cases, modern, industrial economies. However, as North would suggest, the long Confucian heritage did not disappear (often despite the best efforts of officials in the past), but remained below the surface. Now, in many Asian communities, Confucianism is experiencing a revival (Bell, 2008; Bell and Hahm, 2003; Berger, 1997; Huntington, 1990). This resurgence is being recognized among the academic community. For example, Renmin University of China in Beijing hosted a conference in 2009 entitled “Traditional values in modern Chinese context: An interdisciplinary approach.” This conference was based on the fact that “over the last decade there has been a revival of Confucian culture.” Also, Chinese government officials have recently approved the erection of a Confucius statue at Tiananmen Square. This signals the official return of Confucianism to the mainstream Chinese society. Surveys show that attachment to traditional values has actually increased during the period of Chinese modernization. Yet how will this increased attachment to Confucian values affect firm practices? That is the issue to which we turn next.

3 Theoretical Background of Confucianism and Management Practice

Understanding Confucianism is central to understanding Chinese management and organization (Chan, 2008; Chen, 2001; Lam, 2003; Redding, 2002; Strudler, 2008; Weber, 1951). Prominent Chinese business leaders who profess to be guided by Confucianism include Wang Shi, the CEO of real estate developer

VanKe, Feng Chen, Chairman and CEO of Hainan airlines, one of China's most profitable airlines and Hsu Wen-long, the former Chairman of Taiwan's ChiMei chemical company.

In essence, Confucianism attempts to put moral consciousness into practice. The first step in this process is to engage in self cultivation. The next step moves from inner to outer and from self to others, using the self to influence the larger environment (Tu, 1985). The successful end should result in the building of a commonwealth for the common good (Hwang, 2001). Self-cultivation via critical self-examination and self-appraisal is fundamental to the making of a socially responsible human being and serves as an engine for self-escalation and self-improvement. As such, the Confucian classic *The Great Learning* proposed that "from the emperor to the general public, all should make self-perfecting and self-improvement as the foundation basics."

To assist in this process, Confucian teaching has developed a set of prescriptions that emphasize studying, critiquing, analyzing, judging and practice. Diligence in studies, punctiliousness in relations with others and awareness of shame are the best means to achieve self-improvement (Hu, 1967). Lin (1994: 6) states "to put it briefly, Confucianism stands for a rationalized social order through the ethical approach, based on personal cultivation. It aimed at political order by laying the basis for it in a moral order, and it sought political harmony by trying to achieve the moral harmony in oneself."

As Chinese society gradually became industrialized, the tradition of practicing self-perfection and self-improvement to fulfill the order to provide for the community gradually evolved into an institution of duality that is known as *zuo shang you ru*, "left merchant and right Confucian." *Hui gang (hui bang)* at the end of the Ming dynasty and early Qing dynasty embodied the characteristics of such an institution. Ethical business transactions were conducted in compliance with Confucian teaching, treating customers with sincerity and transacting with truthfulness. This yielded success for Chinese business communities in the Ming and Qing dynasties (Cheung and King, 2004) and this specific Confucian-based institution continues to exert considerable influence even today (Lam, 2003).

Cheung and King (2004) later extend this work with further empirical studies and give further discussion to the Chinese cultural heritage of moral righteousness versus profitableness with their discussion of *Contemporary Confucian Entrepreneurs*. Cheung and King (2004: 258) observe that for Confucian entrepreneurs, "moral virtues are pursued not for the sake of generating more profits but as an end in itself. It is a way of life organized around the search for meanings and a sense of commitment." Confucius ethics is a holistic institutional system encompassing norms and beliefs including how business should be organized and operated (Lam, 2003).

Reviewing the extant literature reveals four general areas through which

Confucianism exerts influence on business practice: 1) ethical code of conduct; 2) organizational structure; 3) leadership and HRM; and 4) risk posturing. We discuss each of these four characteristics in the context of Confucianism in detail below, along with their potential impact on business performance.

3.1 Confucian Code of Conduct: Righteousness over Profitableness

For ethical code of conduct, the extant literature suggests that Confucian business practice would hold *righteousness over profitableness*. In the original literary meaning in Chinese profitableness (*li*) refers to “sharpness” or “acuteness” and was later employed to denote benefit, advantage, and profit (Huang, 1993) with emphasis on personal gain and profit maximization (Chen and Liu, 1995). A Confucian business leader will strive to do what is right for its own sake (Chan, 2008; Cheung and King, 2004; Harvey, 1999). The Confucian text *The Great Learning (daxue)* states “the morally upright person pursues righteousness while hypocrite pursues profitableness.” Moral righteousness (*yi*) is often treated as the ideal and represents exemplary behavior patterns for which one should strive. From the standpoint of business transactions, moral righteousness would consist of “fair” dealing and not taking advantage of information asymmetry.

The Confucian prescription is that the superior person should place moral righteousness ahead of profitableness. This should not be surprising, as a similar debate regarding the ethics of maximizing profits can be found in the modern strategy literature. Or as Foss (1997: 1131) puts it: “In the context of the field of strategic management, how may profits be ethically justified?”

Is the Confucian practice of pursuing righteousness good business? Clearly at first glance, the answer would be no. As Cheung and King (2004) pointed out, following their principles has, at times, cost prominent Hong Kong Confucian entrepreneurs. In the short term, there may be opportunities for profit by engaging in behavior that is less than righteous. For example, if a business partner is having problems, it would be righteous to avoid asking for immediate repayment of a debt even though doing so would be prudent. Likewise, if certain individuals in the business community are not behaving in an ethical manner, then persons who adhere to righteousness may be taken advantage of (Williamson, 1985).

Yet on the other hand, it is thought that reputation effects can be good for business in the long run (Barney and Hansen, 1994; Griesinger, 1990; Williamson, 1985). As Foss (1997: 1131) states: “There is a clear link between ethics and strategic management: honesty, trustworthiness, etc., may increase corporate returns, for example, through signaling effects that allow suppliers, potential employees, and present employees to infer that the firm will not be unethical in its behavior toward them.” A trusting loyal relationship can also have

a positive impact on organizational growth and profitability (Chow and Ng, 2004). Loyal, experienced employees can create other peripheral values such as attracting customers, assisting in training, and promoting the corporate image. This all goes to show that loyalty among stakeholders to an organization could raise productivity and competitiveness.

3.2 Confucian Organizational Structure: Emphasis on Hierarchy and Collective Good

For organizational structure, the extant literature suggests that Confucianism would emphasize hierarchy as well as putting the interests of the collective over that of the individual (Chen, 2001). This structure is characterized by rigid and centralized command structures (Chen, 2001; Haley, Tan and Haley, 1998). The Confucian emphasis on hierarchy is the primary reason that Chinese societies score very high on Hofstede's "power distance" dimension of culture (Hofstede, 1990). As Romar (2002: 119) states:

"Confucianism accepts hierarchy and recognizes that in those situations individuals have limited independence. Their scope of behavior is limited by their position in the organization, the tasks and duties they fulfill, the power to affect outcomes and the control superiors have over subordinate's behavior."

Concerning collectivism, Chinese societies also score high on Hofstede's "collectivist" dimension of culture (Hofstede, 1990). Romar (2002: 119) concurs, stating: "Confucian business practice is inclusive, recognizes and values individual contributions to collective success and views individuals as capable of improvements. It demands moral autonomy and responsibility, while recognizing people in hierarchical relationships are not free agents."

Is Confucian style organizational structure conducive to firm competitiveness? The answer to this question is not so clear cut. One aspect of emphasis on hierarchy means that decision-making tends to be centralized at the top of the organization (Gamble and Gibson, 1999). This may be beneficiary in slow-moving low technology industries, but when an organization becomes larger, or needs more flexibility, inordinate centralization can slow down decision-making and reduce flexibility and response times (Ahlstrom et al., 2004; Young, Peng, Ahlstrom, Bruton and Jiang, 2008). Furthermore, hierarchy and authoritarianism are incompatible with the popular concepts of empowerment and flat organizational structures (Hui, Au and Fok, 2004).

However, not everyone agrees that Confucian hierarchy and collectivism reduce firm competitiveness. For one thing, collectivism can bring down transaction costs among organizational members and provide other benefits (Hill, 1995). In addition, the Confucian conceptualization of hierarchy persons need to

behave according to their position for the organization to perform; hierarchy will not automatically translate to high performance. Following Confucianism, a CEO should behave like a CEO and a subordinate should behave like a subordinate. Then the organization is an orderly organization which will lead to high performance. This is analogous to Confucius teaching of *jun jun, chen chen, fu fu, zi zi* which translates to let the emperor behave as an emperor, let the mandarin official behave like a mandarin official, let the father behave as a father and let the son behave like a son. And this order in itself is a manifestation of righteousness which leads to orderliness and performance.

Along these lines, Romar (2002: 120) defends the Confucian respect for hierarchy and sees it both essential and necessary. He states that:

“In commercial enterprises, hierarchy remains the basic organizing principle. Empowerment and other managerial fads to the contrary, organizational members are not free agents. Behavior is structured around business processes, knowledge, and areas of responsibilities. In these situations, individuals, including senior management, have limited knowledge and ability to control events outside of their immediate area of responsibility: witness the demise of Barings Bank several years ago as a result of the behavior of a single, renegade investment officer.”

3.3 Confucian Leadership and Human Resource Management: Benevolent Paternalism

Regarding Human resource management, the extant literature would suggest that Confucianism advocates a sort of benevolent paternalism—a two-way commitment that relies more on stern affection and less on instrumentality (Cheng and Lin, 1999). Simply put, the Confucian organizational leader is seen as a father figure [the vast majority are male] (Chen, 2001; Haley, Tan and Haley, 1998). In fact, Chen (2001) contends that in Confucian society, the family serves as the basis for and prototypical unit of all organizations—from social clubs to educational institutions to political parties. Thus, the Confucian leader will model his behavior on the father figure with strict discipline coupled with fatherly-like concern.

For example, Confucian leaders showing benevolent paternalism would prefer not to engage in layoffs because of a sense of paternal responsibility. For example, in a case study of Taiwan's Hsin Fu Corporation, Pan (2002) found that in a process of reorganization, the organization created one hundred redundant employees. Whereas a Western leader might engage in layoffs, the CEO decided to redeploy these employees to janitorial and other services in the short-term, and transfer them to other units in the long-term.

Is Confucian HRM policy good for firm performance? Similar to hierarchical

organizational structures, paternalistic HR practices is a double-edged sword. On the negative side, adherence to Confucian loyalty to in-group and family can mean that in HRM recruitment processes, the best person for the job is sometimes overlooked for a friend, relative or crony (Backman, 1999). In the extreme, this can lead to what Ip (2008) refers to as “crony capitalism” and rampant corruption. For example, in a study of Formosa Plastics, Cheng and Lin (1999) site a situation where an employee who did not have proper qualifications was deemed as unqualified based on the existing HRM criteria was promoted because of the preference of the CEO. This contradicted the HRM standard and was viewed as unfair and harmed company morale.

On the positive side, benevolent paternalism can foster tremendous employee loyalty (Chen, 2001; Ellis, 2004). For example, in a study of Ruentex group, Cheng and Lin (1999) site an example where an employee with illness was given special treatment. The CEO, Mr Yin ordered medicine be specially delivered for treatment of the employee. Clearly, such attention to employees’ needs can foster extreme loyalty which should enhance employee retention and performance.

3.4 Confucian Risk Posture: Conservatism and Risk Avoidance

Finally, regarding the extent of risk taking, the extant literature suggests that the emphasis on ritual and tradition means that business policies influenced by Confucian principles are likely to be conservative, prudent and to avoid undue risk (Ahlstrom et al. 2004; Cheung and Chan, 2005). For example, Lam (2002: 160) states: “Traditionally a lot of these savings are used to purchase land, perhaps because the attachment to family and land are encouraged in the Confucian tradition. The golden mean [not doing things in extreme] is not in favor of high risk high return investments.”

Confucian prudence and risk avoidance can be both good and bad. In the extreme it can lead to a lack of innovation or investment in high-risk ventures which may be needed at time (Lam, 2003). For example, in study of thirty-three high technology and venture capital firms, Ahlstrom et al. (2004) found that while Confucian prudence and caution have been beneficial for overseas Chinese firms in traditional, slow-growth industries, they are reluctant to invest in riskier ventures such as R&D or brand-building that are necessary for high-tech or fast growth industries.

Of course, prudence and soundness may have their place in high tech industries as well. For example, many Confucian-inspired strategies, such that of Taiwan’s Acer corporation deliberately take a follower or “me too” strategy. While it keeps them from the forefront of industry change, it helps them avoid mistakes in the turbulent computer industry. Acer also has a strategy referred to

as a “go” strategy whereby they only enter into emerging economies to avoid fierce competition. This is one of the factors that have led Acer to maintain consistent performance in the face of cut-throat competition in the computer industry. Often they are the first to enter an emerging economy, well ahead of major rivals.

4 Case Setting and Method

To gain a deeper understanding of the relationship between Confucian-based business practice and performance, we conducted an in-depth case study of the largest and most successful real estate agency in Taiwan, Sinyi Real Estate. Sinyi Real Estate was chosen as a subject case study because it is explicitly organizing its business along Confucian principles. Sinyi’s founder, Mr. Chun-chi Chou is a self-avowed modern-day follower of the teachings of Confucius and he explicitly organizes and runs the company on Confucius principles. The interviews were conducted over a period of approximately one year. Numerous, semi-structured, in-depth interviews were conducted with several of Sinyi’s staff and other organizational stakeholders. At least 2 interviewers were present at all of the interviews. The data were then assembled, coded, assessed and summarized in a manner consistent with a grounded theory approach to data analysis, which approach allows for the examination of topics through an iterative process of comparing data to either a baseline framework or to a new theory as it emerges by summarizing (or augmenting) concepts as they become apparent.

4.1 Business Practice at Sinyi Real Estate

Mr. Chou, the founder and current chairman, has set Confucianism as a central core of Sinyi’s corporate philosophy. Sinyi Group was established in 1981 and its motto and organizational structure are presented in Tables 1 and 2, respectively. In our investigation, we found that Confucianism was apparent in many aspects of organizational operations, including employment practices, appraisal and compensation policies, customer relations, workspace design, codes of conduct, company training policies and teamwork initiatives.

Table 1 Motto of Sinyi Group

<p><i>With our expertise and teamwork, we would like to serve the general public and promote safe, fast and reasonable transactions in the real estate industry, and would like to provide a well-built environment for our colleagues to obtain employment safety and growth, and would like to maintain a sustainable development to the enterprise by an appropriate profit.</i></p>

Table 2 Organizational Structure of Sinyi Group

Realty Peripheral Business Group	Sinyi Realty Inc. Sinyi Real Estate Marketing Agency Sinyi Commercial Sinyi Royal Sinyi Retail Sinyi JointEscrow Office Sinyi Real Estate Appraisal Inc. Sincere Interior Design Company
Assets Management Business Group	An Hsin Real Estate Management Inc. Da-Chia Construction Co. Ltd. Riches Assets Management Service Company Chungcheng Assets Management Corporation
Sinyi China Business Group	Shanghai Sinyi Real Estate Inc. Beijing Sinyi Realty Suzhou Sinyi Realty Chongqing Sinyi Realty Zhejiang Sinyi Realty Caldwell Banker Sinyi Real Estate Inc. Shanghai Sinyi Legal Document Preparation and Real Estate Consultation Co. Ltd.
Culture Public Good Group	Sinyi Culture Foundation Sinyi Culture Publishing Inc. CNCCU—Sinyi Center for Real Estate Community Better Association of Taiwan

To examine the extent to which Sinyi follows the prototypical issues in detail, we conducted a series of interviews with several stakeholders of Sinyi Real Estate from 2007 to 2009. Altogether, we interviewed twelve individuals working both in Taiwan and the Mainland of China. The interviewees are described in Table 3.

Table 3 List of Interviewees

	Organizational member	Interview date
1	Chairman	March 2006 & Jan 2008
2	Vice General Manager	March 2008
3	Assistant Manager of Customer Service Department	March 2008
4	Assistant Manager of Strategy Department	March 2008
5	Manager of HR Department	March 2008

(To be continued)

(Continued)

	Organizational member	Interview date
6	Manager of Flagship store	March 2008
7	Manager of Branch store	March 2008
8	Executive of Sinyi Culture Association	March 2008
9	Director of Marketing Research Office	June 2008
10	General Manager of Shanghai Sinyi	Feb 2009
11	Chief HR Officer	May 2009

4.2 Sinyi's Code of Conduct

During the interviews, Mr. Chou spoke of the influence that Confucianism has on his management philosophy and he often quoted from the analects and other classics of Chinese philosophy. For example, he took the initiative in discussing his viewpoints regarding righteousness versus profitableness, stating:

“The debate is long existent. I will argue that profitableness is embedded in righteousness. If we act righteously first, profitableness may follow. We then harvest both. If we focus on profitableness and ignore righteousness as a result, we stand a good chance of losing both. We then have to understand what righteousness is all about. Righteousness is the core and trustworthiness that is employed to accomplish righteousness. The order should be righteousness first and trustworthiness second. Righteousness can also be taken to refer to appropriate behavior or proper conduct. This is according to Mencius.”

Confucian ethics is strongly adhered to in Sinyi's management philosophy and Sinyi's mission statement as well as in actual management practices. According to Mr. Chou, Sinyi stubbornly adheres to Confucian-based ethics and morality, insisting on doing what is considered to be morally proper even if it may sometimes come at a loss.

This was affirmed with other interviewees. Said one junior employee who had recently been promoted to shop manager: “There have been many people that left us because they only look at monetary gains and do not follow our corporate values. Those people that do not adhere to Sinyi's code of conduct find it very difficult to survive in this organization.” Likewise, one vice president who was interviewed stated: “Mr. Chou teaches others by his own example; he is not profit-driven and behaved morally. At every occasion, he speaks out about the importance of integrity and moral business dealings. He puts emphasis on quality and talented employees, but seldom mentions company profits.” In a separate interview, one shop manager stated: “Regarding moral righteousness and

profitableness, we choose the first one.” In summary, it is clear from interviews with several employees that the Confucian emphasis on righteousness for its own sake is firmly-rooted in Sinyi’s code of ethics. Stated Mr. Chou:

“We have also designed a series of innovative rules and systems to ensure treating our customers fairly and honestly. Only in meeting our customers’ demands can we teach our colleagues various creative ways of dealing with our customers. This will enable us to foster a positive feedback cycle to serve our customers better. We then fulfill our responsibilities towards the society, the region and our country.”

4.3 Sinyi’s Organizational Structure

From our investigation, it was clear that the Confucian concept of collectivism was stressed over individuality. To diffuse internal competition among staff and direct employees’ attention to the company’s mission, a team-centered reward system ensured that individuals within an office would monitor each other’s performance to safeguard the office’s bonus. Mr. Chou stressed long-term goals, and used the metaphor of “planting trees rather than cultivating vegetables.”

Furthermore, commenting on Sinyi’s collectivism, Mr. Chou stated:

“Mission, company, executive, responsibility and honor—Why do we place mission in the first place? It is because mission serves as an overarching guiding principle for a company. If an executive makes a decision against the mission of a firm, all the employees have the rights to disobey or criticize him. All the employees should pledge their allegiance to the mission first, to the firm the second, and then to the executives. A right mission is very important. If the mission fails to exist or if the mission is not adhered to, the firm loses its value to exist.”

Stated one assistant from the customer service department: “We emphasize teamwork and cooperation. We encourage teamwork by setting team-based bonuses.” Likewise, one vice president commented: “Our system is like this: We focus on cooperation; we do not encourage individual heroism; we have rewards for team performance. We encourage members to resolve conflicts and reach solutions through effective cooperation and teamwork. A staff member’s bonus is linked to his/her contribution to teamwork. And the portion of team-bonus is in accordance with team members’ contributions.”

In terms of hierarchy, our fieldwork identified four levels in Sinyi’s organization. There is the Chairman level, Mr. Chou, followed the chief executive levels such as the CEO, COO, CIO, CHRO and CFO. This is followed by the regional managers and finally the shop managers. The decision-making power is in the hands of select individuals and this hierarchy is strictly adhered to

as would be prescribed by Confucian practice. There are frequent meetings among regional managers with active participation of the executive levels and even the Chairman. This demonstrates the paternal concern inherent in Confucian business leadership.

In addition, Sinyi's hierarchy system is based on seniority. There are informal supervisor-apprentice relationships based on obedience and paternalistic hierarchy in Sinyi. For example, in one branch store of Sinyi Company, the branch managers behave as elder members of a family and the employees at the lower levels behave as brothers and sisters. The branch managers thus have a so-called "family" obligation to supervise and help junior staff. Equally, the junior employees behave as younger family members in a traditional Chinese family to accord full respect and report work to their elders (supervisors). To reinforce the structure, the company utilizes ceremonies, rituals and heroes to instill the proper culture. "We have also instituted ceremonies and rituals and used heroic examples to shape our culture. We have a group named Sinyi Noble which includes elected employees with exemplary behavior." Mr. Chou emphasized that "moral values are bonded with human beings and if we require our employees to behave in a certain manner, other than setting example as an ethical leader, the associated rules and policies need to be in place."

4.4 Sinyi's Human Resource Management Practices

Confucianism is also evident in Sinyi's HR policies. Mr. Chou emphasized that "only an empty glass can hold clean water, we hire fresh graduate because we want Sinyi's employees to be relatively free from the bad working habits from our industry." In this way, Sinyi is able to instill them with the corporate value system and the ethical standards that coincided with the Confucian principles; profit maximization is not the primary consideration. Stated one shop manager: "In the one week pre-career training, we were taught Sinyi's values and code of conduct. The tutors were experienced directors and managers of Sinyi. We were told that Sinyi's system is different from others."

Furthermore, the compensation structure supports this value system. In contrast to competitors, Sinyi offers higher base pay to encourage teamwork over competition. Besides base pay, bonuses are allocated to each office. Offices are deemed as profit centers, and the bonus depends upon the performance of the entire office. As Mr. Chou stated:

"We offer our new recruits the highest base in our industry. This is designed to free them from the pressure of performance-based pay and we only recruit fresh graduates. High base pay serves as an incentive to prevent them from falling into the trap of doing the wrong thing for the sake of achieving sales. After a few months, when our new recruits accepted the

right work ethic, we add a performance-based bonus, which is not based on individuals, but on individual offices. This team-based approach encourages our employees to encourage one another to do the right things. Wrong doing of an individual within a team can hurt the overall benefits of a team.”

The appraisal system is also designed with Confucianism in mind; appraisal is based on three aspects: ability/potential, service quality and number of transactions. Mr. Chou said: “We have created a ‘group bonus’ to encourage teamwork and improve intra-group cooperation. If there is a team member who does not obey company rules, the others will try to encourage him to play by the rules to avoid its potential negative influence on team performance.” Surveys are conducted among customers, colleagues and supervisors. A composite score of both the individual and the affiliated office is then computed. Each person must get a minimum acceptable score in each of three categories. However, a higher score in one category can compensate for a low score in another area; the number of transactions is not the overarching priority.

Office workspace is designed to be as welcoming and transparent as possible. This fosters better relationships among employees and with customers. To further encourage ethical behavior, organizational members are eligible for recognition of ethical and sales achievements through an election system. Very few have made the list of Sinyi Noble and the much coveted title is the highest honor one can attain in Sinyi. In this system, training becomes relatively more important. As Mr. Chou stated:

“We also stress the importance of training. We hire employees with none or minimal work experience, proper training becomes vital. Our new employees are relatively free from the pressure of achieving certain ambitious sales target. This also frees them from anxiety and they are more relaxed to attend various training classes organized by the firm.”

To the employees, the HR policies can appear to be rather paternalistic. Stated one junior staff who was recently promoted to shop manager: “The employee operations are standardized from the headquarters to the branch stores. If we have any behaviors which conflict with the regulations, we will be severely punished.” Stated another assistant manager from the planning department: “If any employees’ behavior or even ideas deviated from the corporate values and need for ethical behavior, the headquarters would at once give them an education on virtue. We do this because we need to keep our corporate values intact.”

4.5 Sinyi’s Risk Posture

Although Sinyi has recently experienced rapid growth, Confucian conservatism

and prudence can be seen in their business policies. For example, while other firms in the industry are quickly opening new shops, Sinyi will only open new shops when they have qualified people. The belief is that only people who risen up through the system have a keen appreciation of Sinyi's culture, and they will not take short cuts. While this risk avoidant practice may cause them to lose some short-term profit, it builds a more solid foundation.

This is not to say Sinyi is entirely rejecting innovation. On the contrary, Sinyi has pioneered several practices in the real estate industry in Taiwan including its unique *Four Guarantees System* that guarantees against high chlorine, harmful radiation, escrow, and drainage and leakage protection; *Deal after Property Right Investigation* whereby Sinyi helps customers carry out investigation of title; *Fixed Ratio of Services*—the price of the house may vary, but the service fee is fixed; and *Guarantee of House Deal Contract* whereby Sinyi will find a third party to guarantee a transaction against cheating. Over the years, Sinyi has emerged as the leader in the real estate brokerage industry; it has established a joint venture with Caldwell Bankers and has become the first and only real estate corporation to undertake an IPO in Taiwan.

Sinyi's culture requires its employees to follow every step in a prescribed secured operation procedures and this is indeed beneficial to both Sinyi and its customers. For example, Mr. Jia-wen Chang, Sinyi Chonghe Store Manager, told a story based on his experiences. When he first began working for Sinyi as a real estate agent, Mr. Chang's first major task was to sell a house in a remote and hilly area with low desirability. This was a difficult assignment, but after considerable effort and help from colleagues, Mr. Chang gained his first commission and later brought about a sales agreement. However, just before signing the contract, Sinyi formally launched its "Four Guarantee" policy. According to the policy, the agent must check the chlorine ion content in main buildings, as those built with poorly processed sea sand might compromise the integrity of the building structure. Unfortunately, the chlorine ion test result did not meet the requirement and Mr. Chang was forced to terminate the transaction.

Later, Mr. Chang learned that the house was sold through another real estate agency and the agent deliberately hid the real chlorine data from the purchaser. Incidentally, the purchaser tested the chlorine ion content and discovered the problem. As a result, the agency company was sued and the agent/salesman was forced to resign. Through this case, Mr. Chang realized the importance of abidance to Sinyi's policies and regulations and thereafter never complained about Sinyi being overly conservative and risk adverse.

4.6 How Does Adherence to Confucian Practices Affect Sinyi's Competitiveness?

Our investigation of Sinyi suggests that adherence to Confucian principles has, in

some instances, been beneficial to Sinyi, but it has not all been positive. Verifying the observation of Cheung and King (2004) that insisting on following a code of conduct can be costly—some short-term opportunities may be passed up if they violate the code.

Mr. Chou states that he is interested more in long-term than in short term interest, he states:

“You can see that we are very different from our rivals in the industry. In the initial year of our founding, we were very small, after two to three years we started to experience exponential growth. This was a solid witness in our ability to change the industry norm. We were planting a tree and we planted it well. We took good care of the roots and the trunk and the tree grew well. Others may adopt a transplant approach. They would have a tree right away and be able to enjoy immediate harvest. However, the transplanted tree may not adapt to the environment. Our tree gave us a harvest later but we were able to sustain our gain. I can only say that we are successful because we took great care in placing righteousness first before profitability. We cultivate righteousness within Sinyi and the golden harvest is our growth figures. Righteousness first and then profitability will follow.”

With this belief, the immediate response to the market is of secondary importance. Sinyi opened new shops only if Mr. Chou was convinced there were adequate high-quality human resources rather than directly responding to market conditions. Sinyi will only open a new office after an incumbent manager has been identified and been promoted to the rank of manager.

One vice president characterized Sinyi’s slow prudent process as both costly and beneficial. In our interviews, he said: “We won’t open a new store until there is a proper, qualified store manager. So our expansion is slower.” And later commented that: “Although it may cost more, we require all sides of any given transaction, including publican, franchisee and our representative to be present during the transaction process so we can oversee the process to ensure that it is fair and safe.” Another assistant manager from the planning department stated: “Even when our profit margins are shrinking, we still must meet our customers’ needs and bring them satisfaction.”

Stating the benefits of an integrity-based approach, Mr. Chou said: “Because we truly follow the rules, they (customers and partners) trust us... they are willing to come to us, and thus we have more business opportunities.” The other employees confirmed this attitude and could appreciate it. Stated one junior employee who had recently been promoted to shop manager: “Because of Mr. Chou’s moral business mode and the reputation of Sinyi, more customers would like to come to Sinyi, so we can have more commissions than our competitors.” And stated one vice president: “For example, banks know we never cheat or play

tricks, so they would like to cooperate with us.”

Sinyi’s success is appreciated by outside sources as well. For example, Sinyi has been awarded the National Quality Award in the category of service industry 2001 and 2005. Its customer satisfaction rating is far above the industry average (see Table 4). In addition, Huang (1994) noted that of the 50 largest Taiwan enterprises, Sinyi scored high in the category of harmonious organizational culture (5.38 out of 6.00). Furthermore, on Cooke and Lafferty’s (1986) organizational chart, Sinyi ranked the first among all enterprises in the study. In the category of cultural hostility (the extent to which the culture is adversarial among stakeholders), Sinyi ranked second from the bottom (3.50/6.00), which is an indicator of the firm’s leadership.

Table 4 Customer Satisfaction Rating

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005
Satisfaction rating	4.24	4.2	4.25	4.25	4.28	4.37	4.43	4.6	4.61

Note: 0–5 Scale is used, 0 = lowest, 5 = highest.

Using righteousness and trustworthiness as the guiding principles, Sinyi has also engineered various innovative management systems which enable it to sustain its competitive advantage within the industry. Chief among those is Sinyi’s customer orientation and the supplementary HRM practices. Sinyi can be described as “people-centered” and it makes employees and customer central to its company motto. Such a system induces employee loyalty and encourages employees’ collaboration (Deniz-Deniz & De Saa-Perez, 2003). From internal company data, we find that Sinyi employee attrition rate is among the lowest in the real estate industry in Taiwan. Interviews with Sinyi employees stressed that Sinyi’s adherence to ethical business practices and its willingness to share profit with the employees as a key factor for job satisfaction. One executive manager claimed this was the basis of Sinyi’s inimitable core competence. In our interviews, he stated: “We talk about the model, the model of good service. Maybe others can imitate our corporate rules and regulations, but they cannot imitate our core values and our attitude towards customers.”

Sinyi’s employees gave high marks (5.06/6.00) to Mr. Chou’s charismatic leadership, which ranked second among the leaders of top 50 enterprises in Taiwan. The employees also demonstrated high organizational commitment (4.83/6.00) and high devotion to jobs (4.56/6.00); these rankings were second and third respectively, among the top 50 Taiwan enterprises (Huang, 1994). With demonstrated Confucian integrity, internal stakeholders developed strong affinity

and trust toward Sinyi and its leaders. Sinyi's internal company surveys indicate that customers, a significant external stakeholder group, have accorded Sinyi with high acclaim in customer satisfaction in survey for a good number of years. In the industry, the Sinyi brand name is the first choice of the immediate consumer group in Taiwan (Commonwealth, 2006). In another survey conducted by the Research and Development Centre of the State Council in China, Sinyi ranked second among the top 100 Chinese enterprises and was the only company that made the ranking in the Real Estate industry. For the society-at-large, Sinyi possesses an excellent reputation and its physical organization and leader have been voted by various journals as the most respected with the best corporate image. For example, Mr. Chou won the National Quality Award for management leader in 2007. Table 5 presents a comparison table of Confucian Business practices along with their effects on business performance from the extant literature.

Table 5 Descriptive Table of Findings

Description of Confucian business practice from extant literature	Potential effects on business competitiveness	Findings from Sinyi Real Estate
<p>Ethical code of conduct: emphasis of righteousness over profit.</p>	<p>Pro: Over the long-term, reputation effects can help the organization to earn repeat business; trust among organizational stakeholders can reduce turnover and improve productivity.</p> <p>Con: Rather than making rational calculations or to consider moral actions in terms of utilitarian values, economic actions cannot be accounted for by the postulate of utility maximization, and that the efforts to do business according to their moral principles can be very costly.</p>	<p>Sinyi clearly placed righteousness over short-term profits. This is verified from all of the interviewees as well as from outside sources. This provided a mixed blessing, many members of the organization shared stories where more money could have been made had the organization not adhered to the strict code of ethics. But all of the interviewees appeared to genuinely believe in code of ethics and Mr. Chou's example. They could see that it also brought the company additional revenue in the long run. In the end, the positive impact on performance probably outweighed the lost opportunities.</p>

(To be continued)

(Continued)

Description of Confucian business practice from extant literature	Potential effects on business competitiveness	Findings from Sinyi Real Estate
Organizational structure: Hierarchical with emphasis on the collective good	<p>Pro: Gives leaders of the organization exceptional control. Can reduce monitoring costs as organizational members help to monitor each other. Reduces chances of mistakes or opportunism by reducing scope of discretion among lower members of organization.</p> <p>Con: Confucianism emphasizes hierarchy and submission to authority. This means that contemporary notions of “empowerment” and “flat organizational structures” are difficult to implement. Information overload can occur at the top as even small decisions flow upward.</p>	<p>Decisions clearly flowed to the top at Sinyi real estate. In addition, explicit policies were in place to give employees incentives to work toward the collective good. Management realized that it would be beneficial for employees to be more proactive. For these reasons, they recently hired new employees from IBM and HP to implement a more flexible and responsive culture, yet so far, it has been difficult to make changes.</p>
HRM policies: Benevolent paternalism	<p>Pro: Can create extreme loyalty among employees with two-way commitments between supervisors and subordinates.</p> <p>Con: Strict control of decisions and information flow by top managers can reduce employee initiative and innovation.</p>	<p>Sinyi implemented training procedures that worked best for fresh employees. Furthermore, they put into place very standardized operating procedures as well as team based incentive systems. These policies were geared toward stern benevolence. Employees rallied around charismatic leader</p>
Business practices policies: Prudence and risk avoidance	<p>Pro: Slow and steady, tried and true practices clearly can be beneficial especially in slow growth, traditional industries.</p> <p>Con: Can reduce investment in riskier strategies such as R&D or brand-building, which can reduce growth potential over the long-run</p>	<p>Sinyi was conservative when it came to business growth. The expansion process was quite slow, and they admitted that they typically expanded slower than the industry average. Despite some conservatism, Sinyi was responsible for several pioneering practices in the industry.</p>

In summary, Confucian business practices are clearly evident at Sinyi in all of the four aspects that we investigated. In many cases, the practices were in line with what is portrayed in the extant literature. However, there were some situations where Sinyi deviated from what was expected. For example while strict adherence to Confucianism would suggest risk avoidance, we found that Sinyi, while prudent, is a pioneer of many practices in the real estate industry in Taiwan. This is not entirely unexpected as, in the end, every organization is unique and will create policies that are the best fit with their particular situation (Nelson, 1991).

5 Discussion

In this study, we examine the relationship between Confucian business practice and firm performance. In the existing literature, there are conflicting accounts of the impact that Confucianism will have on firm performance. On one hand, Confucianism is thought to increase conservatism and stifle innovation. Yet on the other hand, Confucianism is sometimes credited with the dynamism and work ethic that has led to the East Asian “miracle.” To gain further perspective on the relationship between Confucian practice and business performance, we reviewed the extant literature for four aspects of business practice and presented the findings on how they would be shaped by Confucian business practice. These four aspects are: (1) ethical code of conduct; (2) organizational structure; (3) leadership and HRM; and (4) risk posture. We found that Sinyi’s business practice is, in large part, consistent with that as described in the extant literature. In many situations, the strict adherence to Confucian practice stifled short-term profit opportunities. But this paid off in the long-run with enhanced reputation and improved performance. However, there were some exceptions. For example, although Sinyi Real Estate is fairly conservative, we find that they have actually pioneered some ground-breaking practices in Taiwan’s real estate industry. Furthermore, they have recently hired two new outsiders from IBM and Hewlett-Packard to facilitate and engineer organizational changes.

In terms of impact on firm competitiveness, Sinyi’s case would suggest that while there are both positive and negative aspects to strict adherence to Confucianism that, by and large, the overall effect can be positive. In fact, the Sinyi example is one of an increasing number of firms in China that resist the mantra of profit maximization at any cost. For example, Mr. Wen-long Hsu of Taiwan’s Chi Mei Group has achieved significant accomplishments while winning respect for adherence to Confucian principles (Huang 1996). While Confucianism and business practices based on Confucianism may be widespread, Sinyi is somewhat unique in that it organizes the entire organization on Confucian-based principles. This contributes to our understanding of business

ethics by pointing out that adhering to Confucius righteousness and morality is consistent with, and may even contribute to, good business performance.

5.1 Suggestions for Future Research, Implications for Business Practice and Limitations

Contemporary Confucian entrepreneurship presents several promising avenues for future research. For example, researchers may wish to examine the specific mechanisms by which a moral value system, in particular moral righteousness, enhances the competitiveness of an organization. Another avenue of research may wish to focus on the mechanism of how Confucius business practices either help or harm the productivity of an enterprise. Research on Confucian entrepreneurship to date has been limited and focuses on specific topics such as moral righteousness versus profitability and its influence on the transactional relationship among small and medium enterprises (Cheng and Liu, 1995); analysis of ethical choice and economic actions under the effect of moral righteousness versus profitability (Cheung & King, 2004); and studies on the relationship between Confucius ethics and whistle-blowing (Park, Rehg & Lee, 2005). Also, with the expansion into the Mainland of China, teaming with noted Western giant of Caldwell-Banker, Sinyi is charting its new territory (Alon & Bian, 2005). It will be interesting to observe whether Sinyi can be successful as an institutional entrepreneur in this new context and whether its insistence on ethical business practice will pay off.

Another interesting topic is the relationship between the debate on righteousness versus profitability and organizational competitiveness and its cultural affinity. The concept of moral righteousness conforms very much to the norms within the Chinese societies and can be traced to the dominant institution of Confucius teaching. It is well-established within management literature that when there is compatibility between organizational and contextual cultures, organizational effectiveness tended to be higher. It is not known if we transfer the Sinyi model to another cultural setting, whether it would be able to produce a similar outcome. If we take faith in what Peter Drucker stated "Confucian moral value is universal" (Romar, 2004), the Sinyi model might have wider generalizability.

Another potential area for research could focus on factors that might potentially moderate the relationship between moral righteousness and competitiveness. While in the case of Sinyi Real Estate, Confucian integrity had a positive impact on organizational effectiveness, such a relationship could be moderated by the leader's perspective on time horizon for profit return. For a leader with a long-term orientation, the model may be more applicable. However, a leader with a short-term orientation may present problems. Furthermore, it may

be the case that the Sinyi model is more applicable where ownership and control rights are unified (Young et al., 2008). For an organization with a clear separation of ownership and control rights, power is dispersed within the organization and a unified voice to instill a set of moral value system becomes harder to generate.

Business practitioners in East Asian societies sometimes are reluctant to embrace business ethics, as tales of unethical behavior, corruption or even outright deception and fraud are legendary. For business practice, this study suggests that it is possible that business ethics does not work against firm performance, and in fact can be part of a firm's competitive advantage. In China in particular, Confucian-based business ethics may be easier to implement because of the long-term underlying foundation of Confucian philosophy that has underpinned multiple aspects of society since antiquity.

This study is not without limitations. First and foremost, this is a single case study. The use of a single case allows us to study in depth into the phenomenon, but it limits the generalizability of the findings. For example, Sinyi is in an industry where integrity, or the lack thereof, can have a tremendous impact on organizational success. Further research can be conducted on a larger sample to see if such outcomes are generalizable. Second, using the Sinyi case, we have noted instances where strict adherence to Confucianism has cause the firm to loss short run profitability. However, it is our contention that much of Sinyi's exceptional performance is due to the stability, consistency and ethical climate that is fostered by a stubborn refusal to compromise from Confucian principles, even when costly. However, such a link is difficult to conclusively verify and there undoubtedly are other factors that have contributed to Sinyi's performance.

5.2 Conclusion

Western observers sometimes misunderstand Confucian business practices as well as their intentions and outcomes (Chen, 2001). For example, McGregor (2005: 10) states:

“China is a shame-based society, very different from the guilt-based West.

In the West, with society's religious orientation, many controls are internalized. Guilt, which is ultimately the fear of sin and eternal damnation, puts a check on bad behavior. In China, it is the fear of exposure and the accompanying shame that tarnishes the entire extended family. As a result, the Chinese can feel pretty good about doing almost anything as long as they don't get caught.”

As we have shown in this study, this view is misinformed. Part of the reason for this misperception may have been due to the turbulent environment of institutional upheaval that occurred for much of the 20th century. When

traditional morality structures are overturned, it can create an “anything goes” environment. However, such an approach clearly is not Confucian. Confucius said “Guide the people by governmental measures, and regulate them by the threat of punishment, and the people will try to keep out of jail, but will have no sense of honor or shame. Guide the people by virtue and regulate them by *li* (the sense of propriety) and the people will have a sense of honor and respect” (Lin, 1994: 12). Likewise, in the Book of Songs, there is the passage “Therefore if a man is cunning or deceitful in his speech, he is answered by cunning or deceitful speech, and if his wealth comes in by crooked methods, it flows out again by crooked methods” (Lin, 1994: 149). In other words, far from advocating a “don’t get caught” approach to business ethics, Confucianism expounds a clear, absolute morality on right and wrong (Bell, 2008; Strudler, 2008).

Visionary leadership in some East Asian firms, such as Sinyi, realizes this. By consciously choosing to adhere to traditional Confucian morality, they are able to enhance long-term productivity and competitiveness. The process of personal internalization effecting the entire organizational network echoes the teaching of Confucius in *The Great Learning* which advocates the process of internalization to externalization via steps of seeking, knowing, purifying, adjusting, reflecting, self-building, family forming, nation administering, and commonwealth besieging (Lam, 2003; Tu, 2001). While this may not be the quickest route to success, our findings suggest that, in the long term, Confucian ethics can be beneficial in more ways.

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