The Chinese Tao of Business: The Logic of Successful Business Strategy
THE CHINESE TAO OF BUSINESS:
THE LOGIC OF SUCCESSFUL BUSINESS STRATEGY

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We dedicate this book to those who instructed us in the “Way”:
Helen Basila Haley, James B. Haley and Sarah Basila;
Nandini Venkatesan and Dr. C. Venkatesan;
Indira Bellare and Vasudevrao Bellare;
Khoo Loo Eng and Tan Thye Bee
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In 2003, Usha received a Life-time Achievement Award in Management from the Literati Club (UK) and a panel of businesspersons, policy makers and academics, for her contributions to the understanding of business in the Asia Pacific. She currently sits on two company and governmental boards and is listed in *Who's Who in America, Who's Who in the World, Who's Who of American Women* and *Who's Who in American Education*. Please contact her at uhaley@asia-pacific.com or tel/fax: 212-208-2468.
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Part I

THE CIVILIZATION CHASM
"Hence, look at the person through the person; 
look at the family through the family; 
look at the hamlet through the hamlet; 
look at the state through the state; 
look at the empire through the empire."

*Tao Te Ching*

Book 2, Chapter 54, Stanza 124
INTRODUCTION
The small town of Camden, South Carolina, with about 8,000 people, has a heavy Southern drawl. Locals shop at the Wal-Mart, Kmart and Piggly Wiggly. Fried chicken and steak, grits and biscuits dominate the local restaurant fare. Here, a pioneering Chinese-owned factory is establishing its presence. As the first units roll off the line at the 300,000-square-foot, state-of-the-art refrigerator factory owned by the Qingdao-based Haier Group, one wonders whether Haier will fit well with provincial Camden. The Camden plant’s Chinese and US managers say they often struggle to communicate with one another, and much of this difficulty centers on cultural issues and assumptions. “I think it’s a learning situation for the Chinese on how to manage Americans, especially Southerners,” said Nelson Lindsay, the Kershaw County Economic Development Office’s director. “The Chinese had plenty of questions for local officials concerning employee recruitment and benefits,” he said.¹ Yet the Chinese appear more comfortable than early Japanese arrivals in delegating day-to-day operations to US managers. Bernie Tymkiw, the factory’s highest-ranking US manager, with about three decades in the home-appliance industry, and its human-resource director, Gerald Reeves, said they have wide latitude to manage as they see fit.² Understanding the civilizational chasm appears the first order of business.

To remove workers who might clash with Haier’s corporate culture, prospective employees must undergo a 40-hour initiation program before Haier hires them. The program stresses teamwork, safety and the importance of quality, as well as an understanding of Chinese history, culture and philosophy. In 2001, Haier flew 10 workers to China for a two-week training program to instill its corporate values. This trip included climbing the Great Wall.

This book provides insights for effective management by Westerners in China as well as Chinese in the West. This first chapter introduces the Tao Te Ching, which offers an understanding of ancient power relationships and their acceptance in mod-
ern China. The next section outlines Chinese moral, social and legal philosophies on which later chapters will elaborate. The ensuing section delineates differences between Western and Chinese cognitive styles. Finally, the last section sketches how China’s history has taken a unique trajectory because of these philosophical and cognitive differences.

**The Tao Te Ching**

“Not to honor men of worth will keep the people from contention; not to value goods which are hard to come by will keep them from theft; not to display what is desirable will keep them (the people) from being unsettled of mind.”

*Tao Te Ching*

Book 1, Chapter 3, Stanza 8

“Heaven and earth are ruthless, and treat the myriad creatures as straw dogs; the sage is ruthless, and treats the people as straw dogs.”

*Tao Te Ching*

Book 1, Chapter 5, Stanza 14

These two opening statements provide the essence of the *Tao Te Ching* and Chinese philosophy as well as a prism to understand the ancient, civilizational chasm between Chinese and Western philosophical thought. The *Tao* literally means the “road” or the “Way”; yet, over the millennia of Chinese history, this word has come to represent a spiritual and moral pathway. In the West, Confucius and his philosophical ideals serve as China’s cultural trademark. However, in modern-day China, and because of historical circumstances, Lao Tzu and his philo-
Sophistical ideals communicated through the *Tao Te Ching* have far more daily relevance; Lao Tzu’s *Tao Te Ching* comprises the most-translated and most-read of all Chinese books. Indeed, while Confucianism served as the philosophy of the ruling classes and elites, Taoism emerged historically as the ideology of the common people. Confucian scholars filled China’s imperial courts, providing guidance and education to the aloof aristocrats and their children; Taoist scholars and hermits lived in China’s villages and caves, providing guidance and education to the villagers and their children.

The opening statement demonstrates the Chinese elites’ negative historical attitudes towards the creation and distribution of wealth. It provides justification for the subsistence economic system that Chinese governments have followed from ancient times, not just since the Communist Party seized control in 1949. It explains why the Chinese and Russians have reacted differently to communist liberalization programs.

The second statement presents the traditional Chinese perspective on useful people and tools. The importance of individuals and ideas derives from functional uses, and not from subjective evaluations of personal worth. “Straw dogs” comprised straw figures that the Chinese traditionally offered to the gods. Prior to making these offerings, the Chinese cared assiduously for the straw figures; after making the offerings, the supplicants crushed the straw dogs under their feet. Similarly, Chinese philosophy urges nurturing something or someone that serves a purpose; but once they serve that purpose, it advocates ruthlessly discarding or crushing the now useless tool or potentially dangerous individual. Despite the many ruthless tyrants in Western history, and several contrarian philosophers on power (such as Machiavelli), Western Judeo/Christian-Islamic philosophic dogmas and moral codes shunned the ruthless, routine use of power. In China, the philosophy of power and rule forms the center of Confucian and Taoist philosophies and their offshoots. Consequently, Communist dogma and China’s traditional philosophy viewed as acceptable the crushing
of pro-democracy protesters at Beijing’s Tiananmen Square — though the West saw these actions as shocking. Confucius saw no justification for challenging the rulers’ power and stability, regardless of whether the rulers proved to be tyrants, abused power and ruled poorly. As he stated, “Be ready to die for the good of ‘the Way’. Do not enter a state that pursues dangerous courses, nor stay in one where the people have rebelled.”

Pursuit of behaviors in accordance with “the Way” served as the primary goal under Confucian and Taoist philosophies. Hence, by admonishing his disciples not to enter a state where the people had rebelled, Confucius was identifying rebellion as an unacceptable behavior under “the Way”. Confucius and Lao Tzu would have concurred that the Communist government reacted appropriately to the Tiananmen protesters. The protesters should not have challenged the government, but should have packed their belongings and left the country — a move which was somewhat easier before passports and immigration laws, of course.

Confucius is traditionally considered to have been born in 551 BC, in the state of Lu during the Zhou dynasty, and to have died in 479 BC. His father died in Confucius’ infancy and his mother raised him. Though he encountered severe constraints and poverty, he seemed to have early success in his career as he obtained modest public offices within the bureaucracy. Unfortunately, the Zhou dynasty was in serious decline and the constant ebb and flow of the political situation served to disrupt his career and aspirations. His home state of Lu was lost to the empire when three influential and wealthy families joined together to wrest control of the state away from the center. Once his career as a mandarin bureaucrat stalled, Confucius lived as an itinerant teacher and bureaucrat in search of his next posting. During the Confucian era, bureaucrats could travel from state to state in search of employment. At one time, Confucius, in
desperation, considered leaving China to seek service in barbarian countries. His difficulties and apparent frustration in gaining material success in his civilized homeland may have led to two traits in Confucian philosophy. First, and most importantly, he exhibited open disdain for personal gain or profit — something, he argued, that the true gentleman never sought. Second, he expressed dissatisfaction with civilized society and he idealized the “Noble Savage”

The Analects, in Chinese the Lun Yu, forms the primary body of his philosophy that has survived to the modern times. The English translation of Lun Yu, “Selected Sayings”, serves as the most accurate description of the masterpiece — basically it is a collection of sayings rather than a coherent text. The power of Confucian thought is as much a tribute to the discerning scholars who interpreted his sayings over the years as it is to Confucius’ wisdom and understanding. Though many view his philosophy as lofty, Confucius addressed the practical aspects of day-to-day living almost exclusively. His great appeal today may stem from his being the most human of “Great Officials”, and the Great Official of all humanists.

**Lao Tzu**

Many believe that Lao Tzu was an older contemporary of Confucius. The name “Lao Tzu” actually means “The Old Man”. Some believe he was a man named Li, a historian in charge of the Zhou dynasty’s archives, often called Tan the Historian. Others state that he was a man named Lao Lai Tzu, who was born in Ch’u, the same state as Tan the Historian, and was a contemporary of both Confucius and Tan. The historical biographies of both Confucius and Lao Tzu record a meeting between them in which Lao Tzu bested Confucius. The meeting occurred when Confucius visited Lao Tzu for instruction in the rites and, depending on whether the story is told by a supporter or a critic of Confucius, Confucius returns either showing respect for Lao Tzu’s age and great wisdom (appropriate behavior as Lao Tzu was older), or admitting that Lao Tzu had an understanding far beyond his own (admission that he lost face to Lao Tzu).
Tradition has it that Lao Tzu had retired from public life and was beginning a contemplative life, when the Keeper of the Pass out of the Zhou Empire's Western realm asked him to write a book. Lao Tzu wrote the Tao Te Ching, in which he explains the meaning of the Way and virtuous behavior. Though he wrote it in 5,000 Chinese characters, the Tao Te Ching today consists of some 5,250 characters and has become the most translated book of Chinese literature and philosophy. Lao Tzu then passed through the gates to his life of meditation and into history as one of the world's greatest philosophers. Folklore has him living for at least 160 years, and some say for over 200 years.

Just as Lao Tzu would have intimated in one of his duality paradoxes, the harder historians try to establish his existence, the more evasive his physical essence becomes, and finally he disappears. Chinese historians record his meeting with Confucius taking place in 518 BC; yet, they also record his son as a general in the Principality of Wei's army in 273 BC. Also, many stories exist of meetings between Confucius and elder scholars who severely outclassed Confucius. Confucius' critics spread these stories over the years in order to undermine his philosophical credibility.

THE ESSENCE OF CHINESE PHILOSOPHY
This section surveys the building blocks of Chinese moral, social and legal philosophies and identifies reasons for the civilizational chasm with the West.

△ Chinese moral philosophy
While Western moral philosophy is sprinkled with truisms such as "Thou shalt not kill" or "Thou shalt not steal", few truisms exist in Chinese moral philosophy. One Chinese maxim approximates the Commandment "Honor thy mother and thy father": The Analects states, "Behave in such a way that your father and mother have no anxiety about you, except concerning your health." A second Chinese maxim seems like the Golden Rule: The Analects reads, "Do not do to others what you would not
like yourself.” Finally, a third maxim urges following “the Way” (proper, righteous and upright behavior): “In the morning, hear the Way; in the evening, die content,” *The Analects* advises. Confucius and Lao Tzu proposed an applied philosophy of specific social behaviors for followers; they espoused a moral philosophy based on reason, circumstances and historical precedent, rather than the unchanging Word of God as in the West.

In the West, the influential ancient Greek philosopher Aristotle attempted to collect, to study, to classify and to categorize everything in nature in order to understand the world. This approach to organizing knowledge and to understanding the world remains highly influential in the West. Simplified, quantitative models of specific aspects provide a greater understanding of the whole world. Much like Aristotle, Confucius and Lao Tzu also attempted to classify, to categorize and to understand their world, but they concentrated, rather, on human behaviors and human situations. Despite having few moral commandments, Chinese moral philosophy does not approximate situational ethics. Situational ethics generally imply flexible norms and morals that change conveniently with circumstances. Chinese morality and ethics, while situation-specific, have limited flexibility. Specific and binding moral duties and appropriate behaviors exist for every situation and derive from specific categorizations and groupings of situations and individuals in society. The following section delineates some organizing philosophies of Chinese society.

**Chinese social philosophy**

Fei Xiaotong, China’s most prominent sociologist, expounded on the differences between Western and Chinese society, arguing that the differences amounted to a civilizational divide. Fei stated that Western society resembles a haystack that the Chinese use to build fires; several hay stems form a bundle, and several bundles form a haystack. In Fei’s analogy, each hay stem represents a single individual that retains this individuality despite voluntarily joining a group. Voluntary groups in
Western societies incorporate social contracts that guarantee the individuals’ minimal rights. Conversely, the individuals pledge loyalty to the groups, and to the overarching group, the haystack. Fei recognized that a hay stem can only belong to one bundle within the haystack, while a Western individual can join more than one social group.

Fei Xiaotong is one of China’s most prominent, brilliant and complex scholars of the 20th century. He proposed that to understand China, one must use research and concepts originating in China. Prior to Fei’s groundbreaking work, Chinese sociologists assumed that research done on Westerners, primarily Americans, would apply to the Chinese. Consequently, when Fei transferred to Yenching University as a junior, he found that the Sociology department taught the same courses as American universities: Fei studied the fundamentals of social-science field research with an American professor, Robert Park. Disillusioned with Sociology’s irrelevance to China, in graduate school, Fei changed his major area to Anthropology, in which he could both teach and practice field-research methodology. He studied for his Master’s degree in Anthropology at Qinghua University under another foreign professor, S. M. Shirokgoroff, a Russian Anthropologist with a passion for field research. Finally, Fei obtained his doctorate from the London School of Economics and Political Science as a student of Bronislaw Malinowski. In 1938, he returned to China to build a school of Sociology based on field research conducted in China on Chinese populations.

Fei attained prominence through his research. Through World War II and the post-war years his reputation, both in academic ranks and among China’s educated urban dwellers, continued to grow. Then in 1949, the Chinese Communist Party seized control and outlawed the discipline of Sociology and Fei’s research. Because Fei chose to stay in the People’s Republic of China (PRC), the
Nationalist government in Taiwan also banned his research. Hong Kong, the last bastion of the British Empire in East Asia, also served as the last bastion of Fei’s Chinese-based school of Sociology. In the PRC, Fei survived the hardships, the stifling censorship and the suppression of the Great Leap Forward and the Cultural Revolution to be officially reclaimed when reforms began under Deng Xiaoping in 1978. He returned to his academic life and founded the Chinese Sociological Association in 1979. Taking a more practical road, he joined the government and, over the years, served in several prominent positions including Vice-President of the Chinese People’s Political Consultative Conference, Vice-Chairman of The Standing Committee of the National People’s Congress and Vice-Chairman of the Drafting Committee for the Basic Law of the Hong Kong Special Administrative Region of the PRC.

Fei represented Chinese society as the circular waves that emanate from throwing a rock into the middle of a pond. The waves form a perfect circle around some central invisible point and, as they move further from that point, become weaker. Unlike Western society, Chinese society displays no distinct individualism (the hay stems have tangible form while the waves do not). Yet, Fei argued, in reality, Chinese society exhibits more egocentrism than Western society (the circular waves emanate from one central point, while the piled hay stalks enclose relatively equal hay stems).12

Fei contended that Western society consists of individuals who volunteer their loyalty to groups they choose, with reciprocal guarantees that the groups recognize the individuals’ inherent rights. In Chinese society, the individuals, forever at the center of their worlds, generate waves that begin with themselves and expand through a series of bipolar relationships into their families, lineages, localities, provinces and countries. Waves closer to the center elicit stronger relationships, and hence, greater loyalty.13 Additionally, Fei indicated that relationships exist between people, not between people and abstract entities such as states.14 The Chinese society’s
egocentric structure applies equally to all people within this society — to the peasant and merchant as well as to the duke and emperor. Networks, not states, comprise the most complex organizations. To enforce their will on society, emperors or other leaders do not employ the state’s laws but, rather, use their networks to pressure the transgressing individuals’ network to bring the individuals into line.

Chinese philosophers have always argued that society serves to extend the families and the families’ preeminence has profoundly affected the evolution of Chinese society. Families comprise a collection of very personal relationships that elicit specific duties and behaviors but that, generally, also tend to forgive transgressions. Hence, Chinese society transmits highly personal perspectives and interpretations of events. As many Western managers know, doing business in China requires developing strong personal relationships with Chinese business associates; indeed, personal relationships indicate business relationships which often appear as mutations of familial relationships.

For foreign companies, personal loyalties in Chinese business relationships have several implications. First, personal loyalties indicate difficulties in maintaining arms-length perspectives in many business decisions. Second, loyalties do not extend beyond the individuals; hence, companies cannot expect goodwill to extend beyond the tenure of the executives that earned it. Individuals hold the franchises on business relationships, not the companies. Third, Chinese individuals view much less harshly than Westerners transgressions and errors between equals in relationships, such as unintentional failures to meet contractual requirements while conducting business in good faith. Finally, strong business relationships have attendant important social obligations, commitments and expected behaviors as they extend familial relationships. The effects of this social philosophy on Chinese legal systems are examined in the following section.
**Chinese legal philosophy**

In Western societies, states maintain social order and guarantee certain rights to members through laws that limit other rights and freedoms. In traditional Chinese society, social order is maintained through social pressures — through rites and customs — rather than through laws. Family ties, especially between fathers and sons, comprise the strongest and most important relationships. Consequently, parental duties include ensuring the families' good behavior. If parents fail to maintain appropriate behavior within their families, then the duty passes to neighborhood and village elders and, finally, to provincial and central governments.

Importantly, birth, not choice, traditionally decided group membership in China. Second, the immediately superior social units, not police authorities, reined in the miscreants. Social units failing in their duties became miscreants too and the next hierarchical social units attempted a return to order. Thus, networks structured and controlled traditional Chinese society. Individuals' rights and freedom depended entirely on whether they could control their families, on whether familial networks could control neighborhood and village elders and so on, up to the emperors. The state neither guaranteed individuals' rights and freedoms nor limited individuals that could control the networks that comprise Chinese society. Thus, the Chinese never developed a rights-based legal system or cultural perspective.

Superficially, adherence to common-law or code-law systems appear to distinguish national legal systems. Yet, virtually all nations, and certainly those with extensive trade relations, have developed their own commercial codes. Consequently, codes form primary influences, if not the foundations for national commercial laws. A deeper distinction revolves around rights-based systems, as in the industrialized West, or public-law systems, as in China. The US Declaration of Independence in 1776 heralded the first rights-based legal system by proclaiming: "We hold these truths to be self-evident: That all men are created