Vidyodaya Journal of Humanities and Social Sciences

VJHSS (2024), Vol. 09 (02)

Balancing Profit and Morality: Confucian Insights into Financial Management and Corporate Governance

I. P. A. T. Rajapaksha[1], S. M. R. K. Samarakoon[1], R. P. C. R. Rajapakse[2*] and K. Uluwatta[1]

[1]Department of Accountancy, Faculty of Business Studies and Finance, Wayamba University, Sri Lanka, [2]Department of Finance, Faculty of Management Studies and Commerce, University of Sri Jayewardenepura, Sri Lanka

Article Info

Article History:
Received 08 Jan 2024
Accepted 13 June 2024
Issue Published Online
01 July 2024

Key Words:
Confucianism
Financial Management
Corporate Governance
Ethical Decision-Making
Business Practices

*Corresponding author
E-mail address:
champa@sjp.ac.lk

https://orcid.org/0009-0008-1659-5412

Journal homepage:
http://journals.sjp.ac.lk/index.php/vjhss

http://doi.org/10.31357/fhss/vjhss.v09i02.05

VJHSS (2024), Vol. 09 (02), pp. 72-92

ISSN 1391-1937/ISSN 2651-0367 (Online)

ABSTRACT

This study explores the integration of Confucian principles in modern financial management and corporate governance, offering a nuanced perspective on how ancient philosophical wisdom can inform contemporary business practices. By analyzing seminal Confucian texts and reviewing current literature, this research illuminates the alignment between Confucian ethics and ethical business conduct, emphasizing a balance between financial success and societal welfare. The findings reveal that Confucianism, with its core values of Ren (compassion), Yi (righteousness), and Li (propriety), advocates for a holistic approach to business. This approach prioritizes long-term societal benefits and ethical decision-making over immediate financial gains. The study contrasts and compares Confucian perspectives with modern financial theories, highlighting the relevance and applicability of Confucian ethics in today's business world. In financial management, Confucian principles encourage prudent investment strategies and respectful stakeholder relationships, aligning with aspects of portfolio theory and wealth maximization but with an added ethical dimension. In corporate governance, Confucianism promotes leadership based on moral integrity, advocating for a governance model that values trust, mutual respect, and social responsibility. This research contributes to the understanding of how traditional philosophical systems like Confucianism can complement and enrich modern business practices.

1. Introduction

This article explores the impact of Confucianism on financial management and corporate governance, emphasizing the teachings of Confucius and their relevance in a global economy. Confucian principles have shaped the ethical conduct within these business areas, particularly in East Asia. Profit and morality are central to business ethics and governance. Profit, the financial gain from operations, drives business activities and decision-making aimed at maximizing shareholder value (Friedman, 2007). Morality involves principles guiding right and wrong, including fairness, justice, and stakeholder welfare, extending beyond legal compliance to broader ethical responsibilities (Singer, 1993; Freeman, 2010). Integrating profit and morality presents a dual challenge: achieving economic success while adhering to ethical standards that promote societal well-being.

Confucius has profoundly influenced financial management and corporate governance in Chinese society over millennia. His philosophies, deeply rooted in Confucian tradition, have intertwined with the political, social, economic, religious, and cultural fabric of the region, making Confucianism a comprehensive ethical system influencing financial and governance ethics (Yao, 2000; Yi, 2006; Craig, 1998).

Research indicates that Confucian principles significantly impact behavior and performance in financial management and corporate governance. Ideals of thrift, diligence, familial loyalty, and education have contributed to success in these sectors in East Asia, challenging traditional Western paradigms (Kim, 2002; Frankel, 2011).

Since China's economic reforms in 1979, a fusion of free market capitalism with Confucian ethics has emerged, prioritizing ethical considerations over materialistic objectives (Du, 2015; Romar, 2002).

This study addresses the gap in understanding Confucianism's role in shaping financial management and corporate governance practices. It explores how Confucian ethics influence critical decision-making in these domains. The study elucidates how Confucian virtues – humanity, righteousness, faithfulness, wisdom, and propriety – manifest in contemporary financial management and corporate governance, offering a unique perspective on achieving efficiency and ethical integrity in these practices (Liu, 1998; Wang & Juslin, 2009; Han, Li, & Hwang, 2005).

The significance of this research lies in its potential contribution to integrating traditional philosophical systems like Confucianism into financial management and corporate governance practices. This is relevant in a globalized business environment where Eastern and Western perspectives converge. The study provides insights into how ancient wisdom can guide business leaders towards ethical, sustainable, and efficient practices in these fields.

Additionally, this research is a valuable resource for business leaders, academics, and policymakers exploring alternative models and philosophies in financial management and corporate governance. It contributes to the broader discourse on integrating traditional ethical systems into business operations and offers a framework for understanding the role of cultural and philosophical traditions in shaping behavior and decision-making in financial and corporate governance (Ip, 2009; Yum, 1988; Redfern, 2004).

The article proceeds as follows: A literature review establishes a foundational understanding of Confucian principles in financial management and corporate governance. The methodology section details the research approach and analytical methods. The analysis and discussion section presents the findings. Finally, the conclusion synthesizes the insights and outlines policy implications.

1.1 Review of literature

This literature review explores Confucianism's influence on financial management and corporate governance, divided into two main parts. Initially, we examine the theoretical background of Confucianism, discussing its historical evolution and ethical principles. Following this, we analyze empirical studies that apply Confucian concepts to modern financial and governance practices. This approach offers a comprehensive view of how Confucianism informs ethical decision-making and governance strategies in the financial sector.

1.1.1 Confucius's Philosophy – A theoretical Background

Confucius, also known as Kong Fuzi (551-479 B.C.), was a seminal thinker and philosopher during the Warring States period in ancient China. This era, marked by political strife and moral disarray, provided the backdrop for Confucius to develop his influential doctrines. His teachings, which span governance, social ethics, and education, aimed to restore order and morality (Makeham, 2020; Pines, 2008). The following sections will delve into these areas, elucidating how Confucius's ideas have shaped and continue to influence ethical thinking and societal structures.

Governance Philosophy

At the heart of Confucian governance philosophy is the concept of Zheng Ming, or 'Rectification of Names'. Confucius posited that social harmony is achieved when individuals fulfill the responsibilities associated with their societal roles. This idea extended to rulers, who were expected to exhibit high moral standards, setting a precedent for their subjects (Yao, 2000; Bell, 2000). The Five Relationships, a key element in Confucian thought, outline interactions between ruler and subject, parent and child, husband and wife, older and younger siblings, and friends. These relationships are governed by a code of conduct emphasizing respect, loyalty, and appropriate behavior (Roetz, 1993; Hwang, 2012).

Social Ethics Philosophy

Confucian social ethics revolve around three key virtues: Ren (Benevolence), Li (Propriety), and Yi (Righteousness). Ren advocates universal love and altruism, Li encompasses norms and rituals that govern social conduct, and Yi represents moral righteousness. These virtues form a framework for ethical behavior and societal order (Van Norden, 2002; Ames & Rosemont, 1998). Ren emphasizes empathy and human-heartedness, essential for societal wellbeing (Fingarette, 1972; Nylan, 2001). Li dictates norms of conduct in social interactions, guiding individuals to act morally (Knoblock & Riegel, 2000; Slingerland, 2003). Yi involves making moral decisions based on ethical principles rather than personal benefit, demanding commitment to the moral path even in hardship (Van Norden, 2007; Ivanhoe, 2002).

Education Philosophy

Confucius emphasized the transformative power of education, proposing a holistic approach that incorporates experiential knowledge, cultural understanding, and moral development. Education in Confucian thought is about shaping one's character (Van Norden, 2002; Shun, 1997).

A key objective is the cultivation of Junzi, or the 'Noble Person', an individual of high moral character committed to personal development and societal wellbeing. This contrasts with the Xiaoren, or 'Petty Person', focused on personal gain (Yu, 2013; McDonald, 2016).

Confucianism's Five Virtues and Guanxi

Confucian virtues and the concept of Guanxi (interpersonal relationships) play pivotal roles in shaping Chinese management approaches and business ethics. The five virtues—Ren, Yi, Li, Zhi (wisdom), and Xin (trustworthiness)—form a moral foundation for Chinese society and business practices.

These virtues, alongside the Confucian work ethic, underscore the importance of unity, hard work, loyalty, thrift, and learning in the Chinese management approach (Rarick, 2008). Liu and Stening (2016) highlight that these virtues guide personal behavior and are integral in modern Chinese corporate ethics. Yi and Li advocate proper conduct and etiquette in social interactions, fostering mutual respect and trust (Chen & Chung, 1994).

Guanxi in Corporate Contexts

Guanxi emphasizes relational networks in business dealings and is a key driver in the success of partnerships (Kwan & Ofori, 2001). Managers in Confucian societies embody Ren, emphasizing benevolence and ethical conduct, and prioritize group welfare over individualism (Han & Altman, 2010). This ethos extends to corporate governance, where trustworthiness (Xin) and commitment are valued over individual performance metrics (Rarick, 2008).

Moral Education and Corporate Governance

Confucian moral teachings posit humans as inherently good, emphasizing moral responsibility and social commitment. In corporate governance, this translates to balancing profit (Li) and social responsibility (Yi), with a focus on ethical decision-making (Yu et al., 2021).

Confucianism and Leadership Succession

Research by Chen, Xiao, and Zhao (2021) explores Confucianism's impact on leadership succession in Chinese family businesses. Founders influenced by Confucian values often select successors within the family or close networks, reflecting the importance of Guanxi in leadership continuity.

Guanxi's Role in Business Relationships

Zhang et al. (2016) emphasize Guanxi's role in fostering supervisor-subordinate relationships, affecting various business aspects. However, Chen and Eweje (2020) caution that reliance on Guanxi alone is not sustainable for long-term business relationships, indicating a need for balance.

Confucianism in Broader Cultural Context

Confucianism has shaped societal values, ethical norms, and legal frameworks for millennia (Cheng, Pan, & Xuan, 2016). Its influence extends beyond personal ethics to broader societal and environmental concerns, emphasizing tradition and communal objectives (Li, Griffin, & Li, 2010).).

1.1.2 Financial Management and Confucianism

Financial management, as defined by Joseph L. Massie in "Essentials of Management" (1971), focuses on the strategic acquisition and effective utilization of financial resources. Joseph F. Bradley's "Administrative Financial Management" (1969) similarly considers it a key aspect of business management involving the regulation of company capital and selection of wealth sources. Guthman and Dougal's "Corporate Financial Policy" further describe it as planning, development, control, and administration of business funds (Sterling Team, 2023).

Wang et al. (2020) emphasize Confucian teachings in enhancing business sustainability and profitability through ethical practices. Cheng, Pan, and Xuan (2017) discuss how Confucian culture promotes honesty and righteousness in financial reporting, strengthening corporate ethics and accountability. The evolution of Chinese accounting principles, especially post the 1985 Accounting Act, reflects the integration of Confucian values. Zhai and Wang (2016) note that new accounting standards have reduced information asymmetry, aligning with Confucian principles of transparency.

In trade credit, Li, Xu, and Long (2020) find that regions with strong Confucian values facilitate smoother business operations by fostering honesty. Chen et al. (2020) reveal that Confucianism reduces agency problems, influencing corporate cash holdings, particularly in state-owned enterprises. Yu et al. (2021) and Du et al. (2014) demonstrate that Confucianism deters manipulative financial practices and unethical earnings management.

Xu, Li, and Chen (2019) indicate that Confucianism mitigates over-investment by reducing agency costs and management overconfidence. Chen, Ye, and Jebran (2019) note that Confucianism guides firms towards prudent investment decisions. Jebran et al. (2019) and Bashir and Yu (2020) observe that companies in Confucian regions exhibit lower stock price collapse risks, suggesting that Confucian ethics contribute to financial stability. In conclusion, Confucianism significantly influences various facets of financial management, shaping ethical practices and decision-making in Chinese businesses and underscoring its cultural impact on corporate finance.

1.2.3 Confucianism and Corporate Governance

Corporate governance is defined by multiple experts. Cadbury (1992) highlights balancing economic and social goals, as well as individual and communal objectives. Shleifer and Vishny (1997) describe it as ensuring finance suppliers' investments are returned. Monks and Minow (2011) emphasize control over a company's direction and administration. Larcker, Seru, and Tayan (2023) integrate theory, empirical research, and data in their analysis. Confucianism plays a significant role in corporate governance. According to Cheng, Pan, and Xuan (2016), it enhances institutional governance by strengthening cultural building within companies, impacting information disclosure and investor protection. Kong et al. (2020) discuss how Confucian values activate ethical mechanisms in organizations.

Yang, Li, and Li (2022) found that Confucianism reduces earnings management, especially in environments with weak supervision. Lam and Goo (2015) suggest Confucian values could guide business behavior more effectively than enforced rules. Xu, Li, and Chen (2019) found Confucianism minimizes agency conflicts and improves financial information quality, reducing management overconfidence and promoting healthy capital markets. Agency theory, described by Jensen and Meckling (1976) and elaborated by Elms and Berman (1997), focuses on conflicts between managers and shareholders. Chen et al. (2020) suggest Confucianism can weaken firm conflict management techniques, maintaining strong financial reserves.

Confucianism impacts leadership and decision-making. Ang and Low (2012) discuss how it promotes individual cultivation, self-discipline, and self-regulation. Chen and Chung (1994) emphasize the importance of understanding the power of words and listening in hierarchical structures. Stakeholder theory is influenced by Confucian principles. Du (2015) suggests that Confucianism leads to more effective corporate governance. Chou and Cheng (2020) argue that Confucian virtues guide business leaders' behavior and shape corporate governance in China. Du (2016) finds Confucian values influence corporate governance structures and gender diversity on boards. Chu and Moore (2020) discuss the impact of deteriorating Confucian values on shareholder rights.

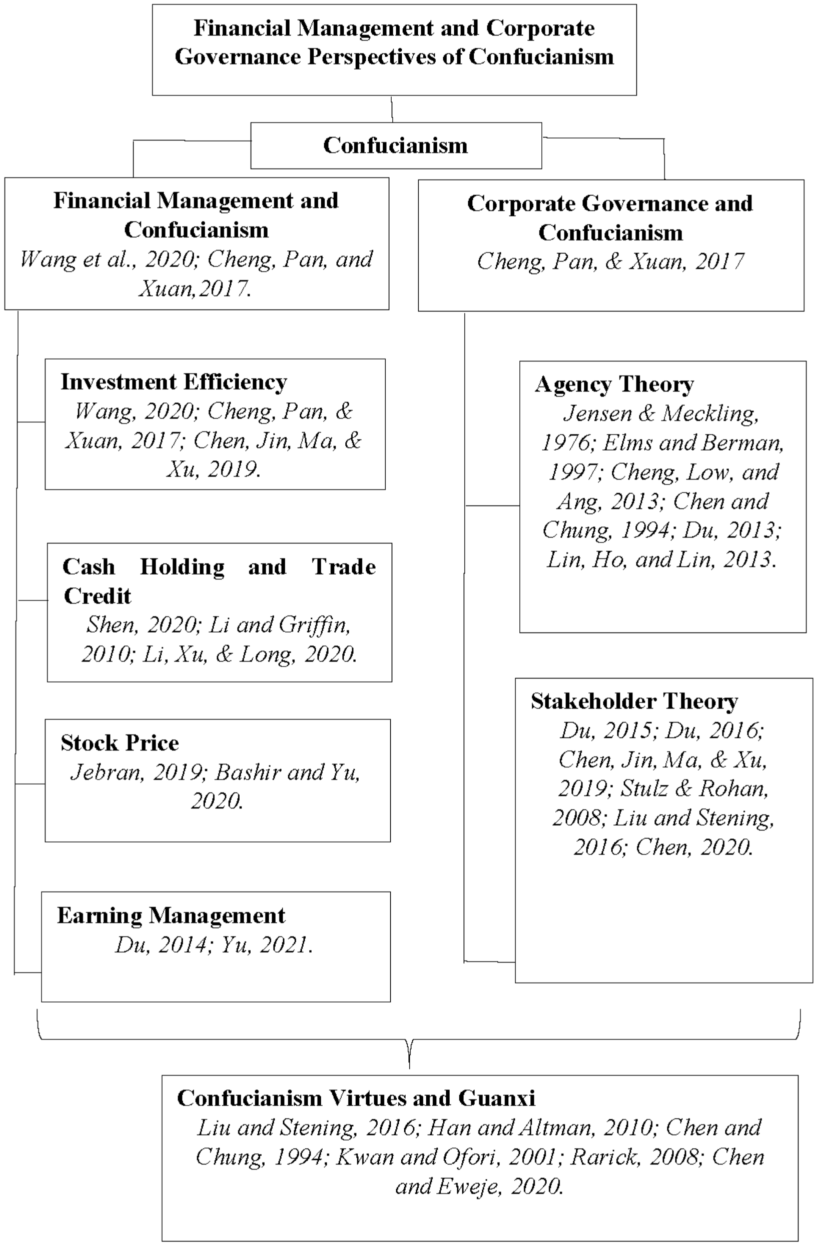

Figure 01. Summary of the Literature Review

Confucianism reduces agency costs in Chinese companies, according to Du (2013). Yap and Ng (2018) highlight that loyalty, a core Confucian value, can fill gaps in corporate governance left by laws and regulations. Confucianism influences investor rights and financial development, as noted by Stulz and Rohan (2008). Ruangkanjanases, Posinsomwong, and Chen (2015) show that adhering to Confucian values fosters trust among employees and customers. Liu and Stening (2016) critique Confucian morality in modern corporate ethics, discussing potential side effects if not properly contextualized. Chen et al. (2020) show that Confucian corporate social responsibility positively impacts job attitudes. Kwan and Ofori (2001) indicate that Chinese contractors use Confucian values to activate partnerships and design business methods.

Confucianism significantly influences corporate governance, shaping ethical behavior, leadership styles, stakeholder interactions, and corporate decision-making, offering a moral framework that complements conventional practices.

1.3 Putting them altogether

The literature review on Confucianism's influence on financial management and corporate governance highlights its enduring relevance in modern business. Emphasizing moral leadership and ethical conduct, Confucian principles significantly shape decision-making and organizational behavior.

Despite this, a comprehensive understanding of how these ethics are holistically integrated into contemporary practices is lacking. Bridging this gap would enrich the understanding of traditional ethics' interplay with modern business, offering valuable insights for leaders and academics on integrating cultural and philosophical traditions in ethical, sustainable, and efficient business practices.

2. Materials and Methods

The methodology for this study employs a qualitative approach to explore Confucianism's influence on financial management and corporate governance. It combines discourse analysis of primary Confucian texts, such as The Analects (Lau, 1979), Mencius (Van Norden, 2008), and The Doctrine of the Mean (Van Norden, 2002), with a content analysis of secondary sources like academic articles, books, and case studies. This dual approach examines key Confucian concepts (Ren, Yi, Li) and their relevance to modern business practices (Ames & Rosemont, 1998; Krippendorff, 2018). Ethical considerations will be upheld, adhering to principles of academic integrity (Bryman, 2016). This methodology aims to provide a comprehensive understanding of the theoretical and practical applications of Confucianism in contemporary business ethics (Ip, 2009; Bell, 2010).

3. Results and Discussion

2.1 Financial Management Perspectives of Confucianism

The relationship between Confucian values and the financial success of Chinese family businesses has garnered significant attention among scholars. Yao (2013) highlights the pivotal role of Confucianism in shaping business practices influential beyond Asia. This study examines Confucian principles' profound impact on financial management and business success within the Chinese context.

In the late 1970s, Western economies faced challenges like the oil crisis and inflation, contrasting with East Asian countries' impressive growth. Kahn attributed the resilience and success of Japan, South Korea, and Taiwan to 'neo-Confucian' values, arguing that Confucianism bolstered these economies against adversities (Yao, 2013).

Confucian wisdom emphasizes three fundamental elements in business investment: timing, geographical advantage, and harmonious human relationships. These principles form the bedrock of a thriving business venture (Yao, 2013). Confucianism also values learning as self-development, contrasting with contemporary rote learning, and emphasizes holistic personal growth (Hon, 2005).

Key drivers of business success identified by Confucius include hard work, thrift, humility, self-confidence, and respect for others. These values enable individuals to transcend poverty and achieve prosperity through moral integrity. Confucian teachings highlight fair work and self-sufficiency, with dialogues between Confucius and Zigong offering insights into managing wealth and poverty through ethical living and contentment (Hon, 2005).

Pecking Order Theory and Trade-Off Theory in the Context of Confucianism

The evaluation of financial management and capital structure is a crucial aspect of a company's operational performance. Theories like the static trade-off theory by Modigliani and Miller (1963) and the pecking order theory by Myers (1984) offer valuable insights into the formulation of a company's capital structure. Modigliani and Miller's trade-off theory suggests an optimal balance between the benefits and costs of debt and equity, with the primary advantage of debt being interest tax deductions and the costs being bankruptcy and agency costs. On the other hand, Myers' pecking order theory proposes that firms prioritize internal financing sources over external ones, such as debt or equity, due to issues related to adverse selection (Frank, 2008).

Chen, Jung, and Chen (2011) expand on these theories by indicating that profitability and growth rate are key determinants of a firm's capital structure. They argue that profitability negatively influences capital structure, as firms prefer to use earnings for financing, reducing the need for debt capital. Growth opportunities, conversely, positively affect the capital structure, necessitating a larger capital base for expansion.

Confucianism, with its emphasis on moderation and ethical conduct, offers a unique perspective on these financial theories. Yao (2013) points out that Confucianism discourages excessive borrowing for economic gain, advocating for borrowing only when necessary, such as in cases of cash flow problems. This perspective aligns with the pecking order theory, where equity investment is preferred over debt, highlighting the importance of liquidity management within an organization. Confucianism also emphasizes the importance of trust in financial transactions, suggesting that contracts become essential in the absence of trust, leading to higher transaction costs as a hedge against uncertainty and breach of contract (Yao, 2013).

Wealth Maximization Theory in Light of Confucian Principles

Shareholder wealth maximization is regarded as a paramount business objective, focusing on enhancing market value of shares and thus shareholder wealth (Khan & Hussanie, 2018). This theory equates maximizing shareholder wealth with maximizing shareholder utility, suggesting that a firm's primary goal is to amplify shareholder wealth continuously.

Confucian philosophy offers a nuanced perspective. Yao (2013) explains that Confucian ethics prioritize ethical and emotional connections in business, advocating a balance between profitability and sociality. This perspective suggests that business should not exclusively focus on profit maximization but also include altruism and ethical considerations. Confucianism recognizes market utility but does not endorse unbridled profit maximization. Mencius criticized profit pursuit at societal welfare's expense, advocating for a moralistic approach to economic transactions and a tax structure supporting social welfare (Hon, 2005).

Confucianism also values integrating family labor into business practices. Yao (2013) notes that family labor, often undervalued economically, is vital for many successful migrant businesses, typically operating in niche markets that align with the Confucian ethos of modesty and community-centered entrepreneurship.

Portfolio Theory in the Context of Confucianism

Portfolio theory, initially introduced by Harry Markowitz in the early 1950s, revolutionized the approach to financial decision-making and investment strategy. Markowitz's Modern Portfolio Theory (MPT) provides a fundamental framework for understanding how investors can optimize their portfolios through diversification, balancing risk and return (Markowitz, 1952). This theory underscores the importance of considering the correlation between different asset classes to minimize risk while maximizing return. Building upon Markowitz's groundbreaking work, O'Loughlin and O'Brien (2019) explored the practical implications of portfolio theory for consumers, addressing two main aspects: the allocation of current income between various goods and services, and the selection of investments across different asset classes. These aspects, which encapsulate the concepts of consumption saving and portfolio choice, are key components of personal financial management and reflect the enduring relevance of Markowitz's initial insights into portfolio diversification and risk management.

In the context of Confucian philosophy, these decisions take on additional dimensions. Research by Zhao, as cited by Yao (2013), reveals that in China, the rate of savings across all income brackets is approximately 25 percent. This high savings rate reflects a deeply ingrained cultural tendency towards frugality and prudent financial planning. Confucian teachings emphasize not only the importance of saving money but also the necessity of spending it judiciously. The quality of the purchase, and not merely its price, is a key consideration in making financial decisions.

Confucian principles advocate for a balanced approach to life, intertwining professional responsibilities with personal development and societal well-being. This philosophy encourages individuals to engage in self-cultivation through continuous learning and education, while simultaneously enjoying natural and social pleasures. Such an approach fosters a holistic view of wealth, where financial decisions are aligned with personal growth and communal harmony.

Yao (2013) further highlights the influence of Confucian values in shaping economic behavior. This focus underscores the connection between individual financial decisions and broader societal and national prosperity. In Confucian thought, personal financial decisions are not isolated acts; they are deeply embedded in the fabric of social and familial values.

The integration of Confucian principles into portfolio theory suggests a model of financial management that transcends mere economic gain. It advocates for a more ethical, socially responsible, and holistic approach to financial decision-making. This approach aligns personal financial goals with ethical considerations and societal welfare, reflecting the deep interconnection between individual prosperity and collective well-being in Confucian philosophy,

The analysis of Confucianism's influence on financial management when juxtaposed with modern financial theory offers insightful contrasts. Below is a summary table that compares key aspects of modern financial theory with Confucian perspectives, along with their relevant sources and literature.

Table 01. Financial Management perspectives of Confucianism Vs. Modern Finance Theories

Aspect	Modern Financial Theory	Confucianism Perspective	Sources and Literature
Capital Structure	The trade-off theory posits optimal capital structures by balancing debt benefits against bankruptcy costs. The pecking order theory suggests firms prioritize internal financing over external debt or equity due to adverse selection.	Confucianism discourages excessive borrowing, advocating for borrowing only when necessary and highlighting the importance of trust in financial transactions.	Modigliani and Miller (1963), Myers (1984), Frank (2008), Chen, Jung, and Chen (2011), Yao (2013)
Wealth Maximization	Shareholder wealth maximization focuses on maximizing the market value of shares, indicating the efficiency and effectiveness of a company.	Confucius emphasizes maintaining ethical and emotional connections in business dealings, advocating for a balance between profitability and social responsibility.	Khan and Hussanie (2018), Yao (2013), Hon (2005)
Portfolio Theory	Modern Portfolio Theory, introduced by Harry Markowitz (1952), and further explored by O'Loughlin and O'Brien (2019), centers around consumer decisions in allocating income among goods, services, and investment choices. It emphasizes the optimization of risk and return through portfolio diversification and strategic asset allocation.	Confucian philosophy emphasizes saving money and spending it wisely, considering the quality of purchases, and aligns personal financial decisions with ethical considerations and societal welfare.	Markowitz (1952), O'Loughlin and O'Brien (2019), Yao (2013)

3.1 Corporate Governance and Confucianism: An Examination of Moral Principles and Socio-Political Systems

Corporate governance is defined by multiple experts, each highlighting different facets. Cadbury (1992) emphasizes balancing economic and social goals, while Shleifer and

Vishny (1997) describe it as ensuring that the finance suppliers' investments are returned. Monks and Minow (2011) focus on control over a company's direction and administration. Larcker, Seru, and Tayan (2023) integrate theory, empirical research, and data in their analysis.

Confucianism's integration into corporate governance is rooted in moral principles, shaping norms and behavior. Becker and Caldwell (2015) emphasize the significance Confucius placed on historical practices, highlighting honest hearts and dedicated spirits. Confucius argued that an empire's growth and peace depend on familial values like filial piety and respect for elders, linking morality with governance and religion.

Moral exemplars in Confucianism, as explored by Gardner (2014), play a pivotal role. Confucius and his followers, viewed as moral vanguards, uphold five cardinal relationships—father and son, ruler and subjects, husband and wife, elder and younger brother, and friends—fostering unity in families and society. This self-cultivation establishes a just socio-political system, positioning individuals as agents of moral influence.

Gardner (2014) also discusses that effective governance in Confucian thought requires moral leaders. A government's efficacy is linked to its leaders' ability to exemplify morality, kindness, and amicable interactions. Confucius advocated for leadership that gently guides people, connecting them with traditions, rather than strict rules and punitive measures. He believed this approach would lead to genuine moral development (Hon, 2005).

The collapse of governance systems, exemplified by the Sho kings' reign, is attributed to weak leadership. Becker and Caldwell (2015) describe how erosion of administrative structures and diminishing control led to chaos, with regional rulers vying for power. This resulted in wars, internal power struggles, and the disintegration of traditional social structures. The resultant societal upheaval illustrates the interplay between governance, morality, and stability in Confucian thought.

Agency Theory in the Context of Confucianism and Corporate Governance

Agency theory explores the relationship between ethics and economics, assuming that individuals act primarily on self-interest, which can conflict with shareholders' or stakeholders' interests (Noreen, 1988). Jensen and Meckling (2019) highlight how managers might pursue personal gains at shareholders' expense, through excessive remuneration, lavish expenditure, or resource misappropriation.

Du (2013) extends this discussion to the impact of religiosity on managerial behavior, particularly in Chinese firms. His research shows a significant negative correlation between religious values and agency costs, indicating that religious beliefs can deter unethical managerial practices. This underscores the potential of ethical beliefs in reducing agency costs, traditionally addressed through corporate governance mechanisms.

Yao (2013) integrates Confucian principles into this discourse, suggesting that business wealth should benefit the broader community, not just for personal gain. Confucianism promotes a balanced relationship between personal wealth, social distribution, and philanthropy, coining this approach "Confucian capitalism." In this model, the business owner acts as a "loving father," fostering a specific culture of management authority and employee compliance within Chinese family businesses. However, this does not eliminate challenges, as managerial authority and job demands can be unequally distributed, leading to disparities among workers based on familial ties, gender, and age. Workers, while recognizing management authority, can resist unreasonable demands, reflecting the complexities of family relations and management control (Yao, 2013).

McClintock (1995) elaborates on the interplay of culture, dominance, and opposition within family businesses. He suggests that culture reinforces administrative power while organizing employees' responses to oppressive practices, leading to "non-rational procedures" where culture aids in managing workers' reactions and ensuring compliance amidst resistance.

Agency theory, examined through Confucianism and corporate governance, reveals a complex interplay of ethics, economics, and cultural dynamics. The Confucian ethos of integrating self-interest with communal welfare and ethical employee treatment offers a nuanced understanding of agency relationships within corporate structures. This perspective emphasizes the importance of ethical considerations and cultural context in addressing agency theory challenges in modern corporate governance.

Stakeholder Theory from a Confucian Perspective

Stakeholder theory, a central tenet of modern capitalism, emphasizes the symbiotic relationships between a business and its stakeholders, including customers, suppliers, employees, investors, and communities. This theory advocates for creating value for all groups, not just shareholders.

Confucianism, with its ethical framework, echoes this sentiment, emphasizing equitable treatment of all stakeholders in a business setting, suggesting a model where all involved groups are valued and respected equally (Becker et al., 2015).

In Confucian stakeholder theory, the emphasis is on achieving a "win-win situation" in all interactions, whether between management and employees, government and citizens, or merchants and consumers. Confucian teachings advocate serving all parties fairly and equitably, ensuring no single party benefits disproportionately at the expense of others. This balancing act ensures harmony and mutual respect in business interactions (Yao, 2013).

Confucius emphasized the importance of greeting and respecting everyone who interacts with a business, fostering a sense of belonging and respect essential to maintaining a positive business environment. This welcoming approach encourages repeat visits and loyalty among customers and suppliers, creating a friendly atmosphere (Yao, 2013; Hon, 2005).

Confucian capitalism also focuses on the efficient and ethical management of labor. Confucius advised against overstaffing, advocating strategic employment, such as hiring farmers for public works without disrupting their agricultural activities. This optimizes resource utilization while maintaining social harmony and economic efficiency (Hon, 2005).

In labor relations and corporate governance, Confucian teachings view employers and unions as partners, with government, business leaders, and employees collaborating for the collective good of the nation. This perspective emphasizes mutual respect and cooperation in governance and business practices (Yao, 2013). The Confucian view of business as a battlefield, where even familial relations can become competitive, highlights the complex nature of business interactions. The ideal scenario is one where profits are shared among all participants, balancing economic gain with ethical conduct. Every transaction is seen as an opportunity to build and strengthen relationships while achieving mutual profitability. Confucianism advocates for a delicate balance in business relationships, ensuring that economic transactions do not overshadow ethical and emotional aspects (Yao, 2013).

The Confucian approach to stakeholder theory advocates creating value for all stakeholders through ethical and balanced business practices. This approach, rooted in mutual respect and the equitable treatment of all parties, offers a holistic and ethical perspective on corporate governance and stakeholder engagement. It underscores the importance of harmonious relationships and ethical conduct in the realm of business, aligning with the broader objectives of stakeholder theory.

The table below presents a comparative analysis between modern theories of corporate governance, agency theory, and stakeholder theory, and their corresponding perspectives from Confucianism:

Table 02. Corporate Governance perspectives of Confucianism Vs. Modern Theories

Aspect	Modern Financial Theory	Confucianism Perspective	Sources and Literature
Corporate Governance	Focuses on legal norms, business practices, and maximizing shareholder value.	Integrates moral principles into governance, emphasizing honesty, dedication, and filial piety for societal harmony.	Becker & Caldwell (2015); Gardner (2014); Hon (2005); Cadbury (1992); Shleifer & Vishny (1997); Monks & Minow (2011); Larcker, Seru, & Tayan (2023)
Agency Theory	Deals with conflicts between managers and shareholders, emphasizing individual self-interests.	Advocates for moral leadership where effectiveness is linked to leaders' morality and kindness.	Du, 2013; Yao, 2013; Noreen, 1988; Jensen & Meckling, 1976
Stakeholder Theory	Centers on creating value for all stakeholders, not just shareholders.	Aims for a 'win-win' situation in business interactions, emphasizing ethical conduct and mutual respect.	Yao, 2013; Becker et al., 2015; Hon, 2005

3.2 Five Virtues in Relation to Financial Management and Corporate Governance

Ren (Love and Sympathy)

Ren embodies a range of moral attributes, including kindness, altruism, and compassion. It advocates against materialism, greed, and selfishness, focusing instead on developing a broader, humanistic perspective. In the context of financial management and corporate governance, Ren encourages ethical conduct, empathy, and a strong moral compass in business interactions. Financial professionals are guided by Ren to avoid unethical practices like high-pressure sales tactics and to empathize with customers' situations, thus promoting a humane approach to business (Rainey, 2010).

Yi (Righteousness)

Yi, or righteousness, involves acting morally right and just in varying situations. It contrasts with selfishness and financial gain, emphasizing moral behavior. In the corporate world, Yi would imply ethical earnings and avoidance of malpractices like market manipulation or insider trading. Yi promotes fairness and justice in all business dealings, advocating for honesty and transparency in financial transactions (Rainey, 2010; Hon, 2005; Chen et al., 2019).

Li (Respect and Comity)

Li involves respect for customers and culture, adhering to societal norms and ethical standards without exploiting loopholes. It emphasizes understanding and respecting clients' needs and privacy, and encourages companies to avoid monopolistic practices, thereby respecting the existence of others in the market. Li also advocates for cooperation and consensus within the industry, fostering a cooperative business environment (Du, 2015; Becker et al., 2015).

Zhi (Wisdom)

Zhi encompasses the ability to distinguish right from wrong and to act in a way that promotes societal harmony. It calls for the identification and cessation of immoral actions within a company, emphasizing moral courage. Zhi also involves providing thoughtful solutions that consider stakeholders' needs, advocating for transparency and ethical decision-making in business practices (Chen et al., 2019; Rainey, 2010).

Xin (Faithfulness)

Xin, or faithfulness, pertains to trustworthiness in business relationships. It stresses the importance of honesty in transactions and fulfilling promises made. Xin guides businesses to live by their words and to avoid deceitful practices. It also underlines the importance of trust and reputation in Chinese business culture, where verbal commitments hold significant value (Yao, 2013).

These five Confucian virtues provide a moral framework for financial management and corporate governance, emphasizing ethical conduct, empathy, respect, wisdom, and faithfulness. They guide businesses towards practices that are not only profitable but also socially responsible and morally upright. This approach can lead to sustainable success and a harmonious balance between business objectives and societal well-being (Hon, 2005; Du, 2015; Chen et al., 2019; Yao, 2013).

4. Conclusion and Recommendation

This study examined the profound impact of Confucianism on financial management and corporate governance. It explored the ways in which Confucian teachings and virtues – Ren (Love and Sympathy), Yi (Righteousness), Li (Respect and Comity), Zhi (Wisdom), and Xin (Faithfulness) – manifest within these business domains. The study delved into the historical and philosophical underpinnings of Confucianism, analyzing its theoretical framework alongside modern financial theories and practices. The research employed qualitative methods, including discourse analysis of primary Confucian texts and content analysis of secondary sources.

The findings of this study illuminate the profound alignment between Confucian principles and ethical business practices, providing a unique lens through which modern financial management and corporate governance can be viewed. At the heart of Confucian philosophy is the emphasis on ethical decision-making, which prioritizes respect for all stakeholders and a focus on long-term societal welfare. This contrasts starkly with some aspects of modern financial theories, which often prioritize immediate financial gains. Confucian principles such as Ren (compassion), Yi (righteousness), and Li (propriety) foster a business environment where moral integrity, empathy, and social responsibility are valued alongside, and sometimes above, profitability.

The study's insights demonstrate how Confucianism champions a holistic approach, intertwining ethical considerations with business objectives. This includes a balanced view of stakeholder relationships, where businesses are encouraged to create value for all parties involved, not just shareholders. The Confucian perspective also advocates for ethical labor practices, sustainable investment strategies, and corporate governance that eschews short-term benefits for long-term stability and societal harmony.

Moreover, Confucianism's impact on financial management is evident in its promotion of prudent, socially responsible investment and fair-trade practices, which align with the principles of modern portfolio theory and wealth maximization, albeit with a broader ethical scope. In the realm of corporate governance, Confucian ethics offer a model where leadership is grounded in moral virtue, aligning managerial actions with the broader interests of society and fostering a culture of trust and mutual respect within organizations.

This study highlights the timeless relevance of Confucian principles in contemporary business practices, suggesting that these ancient tenets can offer valuable guidance for current and future business leaders. By integrating Confucian ethics into modern financial and corporate governance models, businesses can achieve a harmonious balance between ethical integrity, social responsibility, and financial success. The findings thus provide a compelling argument for the integration of traditional philosophical wisdom in shaping sustainable and ethical business practices in a globalized economy.

The implications of this research are multifold. For business leaders and policymakers, the integration of Confucian principles offers a pathway to more ethical and sustainable business practices. This approach emphasizes the importance of moral integrity, social responsibility, and long-term vision in financial decision-making and corporate governance. Additionally, the study provides valuable insights for academics, contributing to the broader discourse on the integration of traditional philosophical systems in modern business operations. The study's primary limitation is its theoretical focus and the potential lack of generalizability beyond East Asian contexts. Future research should include empirical studies and comparative analyses across different cultural settings, exploring the application of Confucian ethics in emerging business models and technologies to broaden the understanding of its global relevance.

Overall, this study underscores the enduring relevance and potential of Confucian principles in shaping ethical, sustainable, and efficient practices in financial management and corporate governance. It opens avenues for further exploration and integration of these timeless teachings in contemporary business practices, contributing to a more ethically grounded and socially responsible business landscape.

Acknowledgements: Valuable comments from anonymous reviewers of this journal and Editor have greatly improved the final version of the paper. We thank the reviewers and the editor for their helpful inputs.

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