



What can Confucius Teach us as China Goes Global?

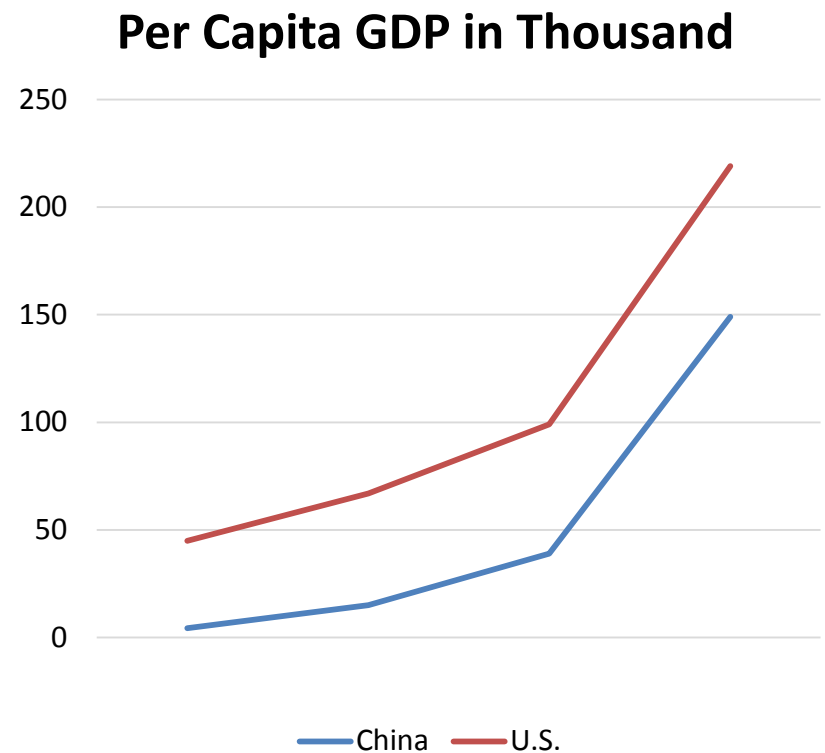
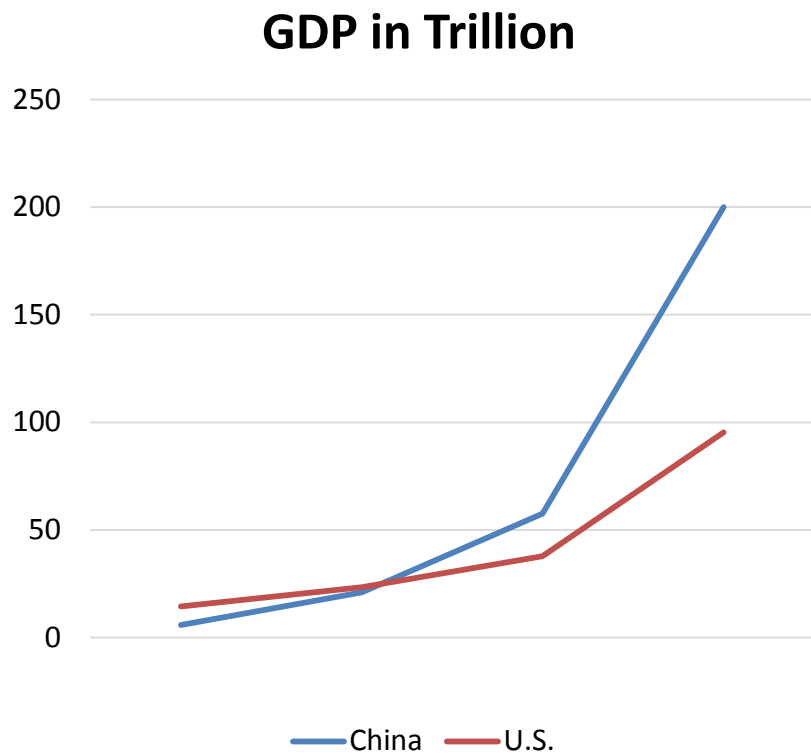
Dr. Xiaohua Yang
University of San Francisco

International symposium at Bond
University, May 14-15, 2015

Key Questions

- How do Confucius key values fit with the concept of CSR and business ethics in other countries?
- What advice would Confucius give to Chinese firms investing around the world?

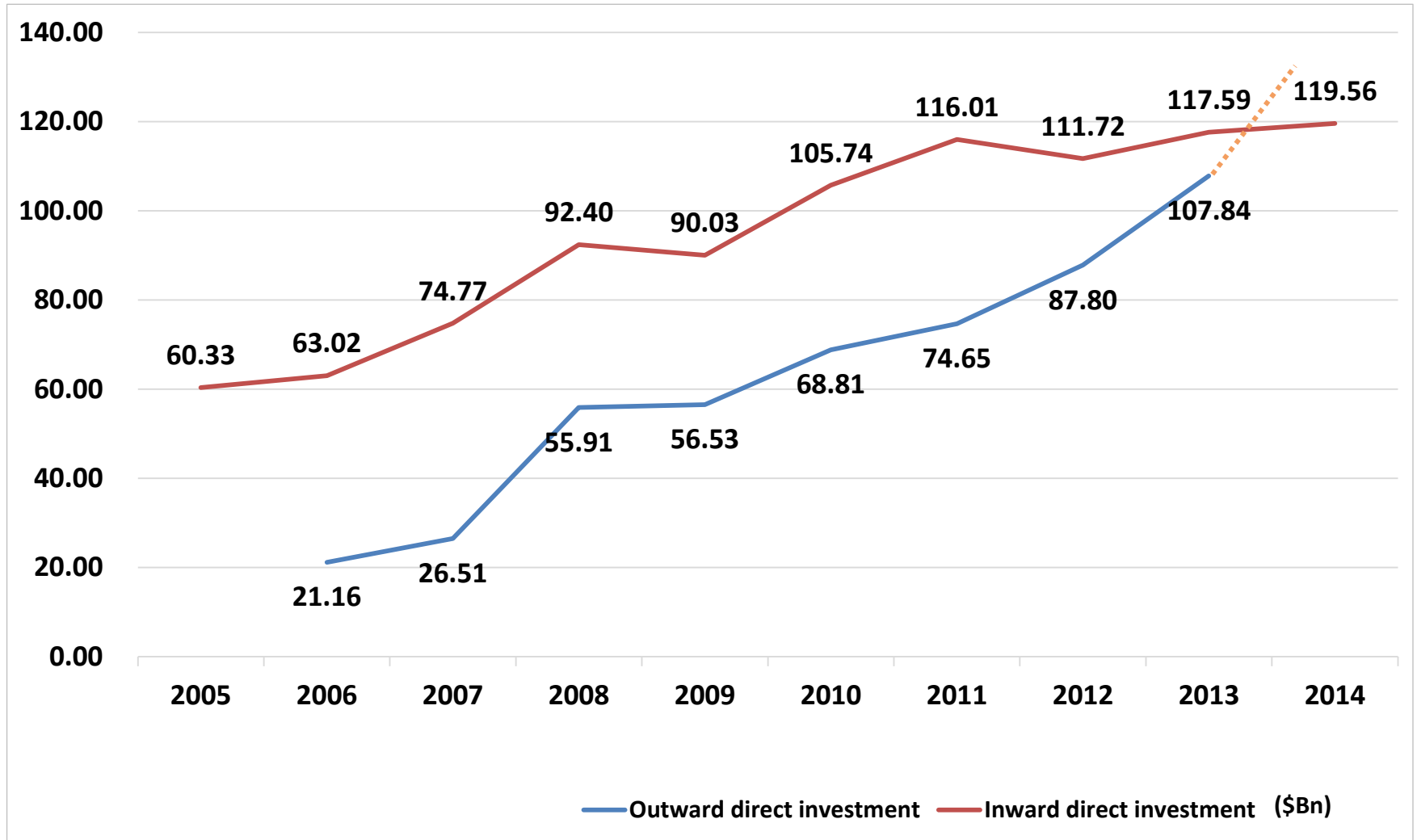
Did Confucius ever Dream that China May Surpass the U.S. to Become the Largest Economy in The World?



Index	2010	2020	2030	2050
Per Capita GDP Threshold for High-income Countries (\$ thousand)	12.3	16	20	33

- Source: Development Research Center of the State Council
- * GDP and per capita GDP in the above table are calculated using the present day USD-RMB spot rate

Did Confucius ever expect that China would become the net exporter of capital?

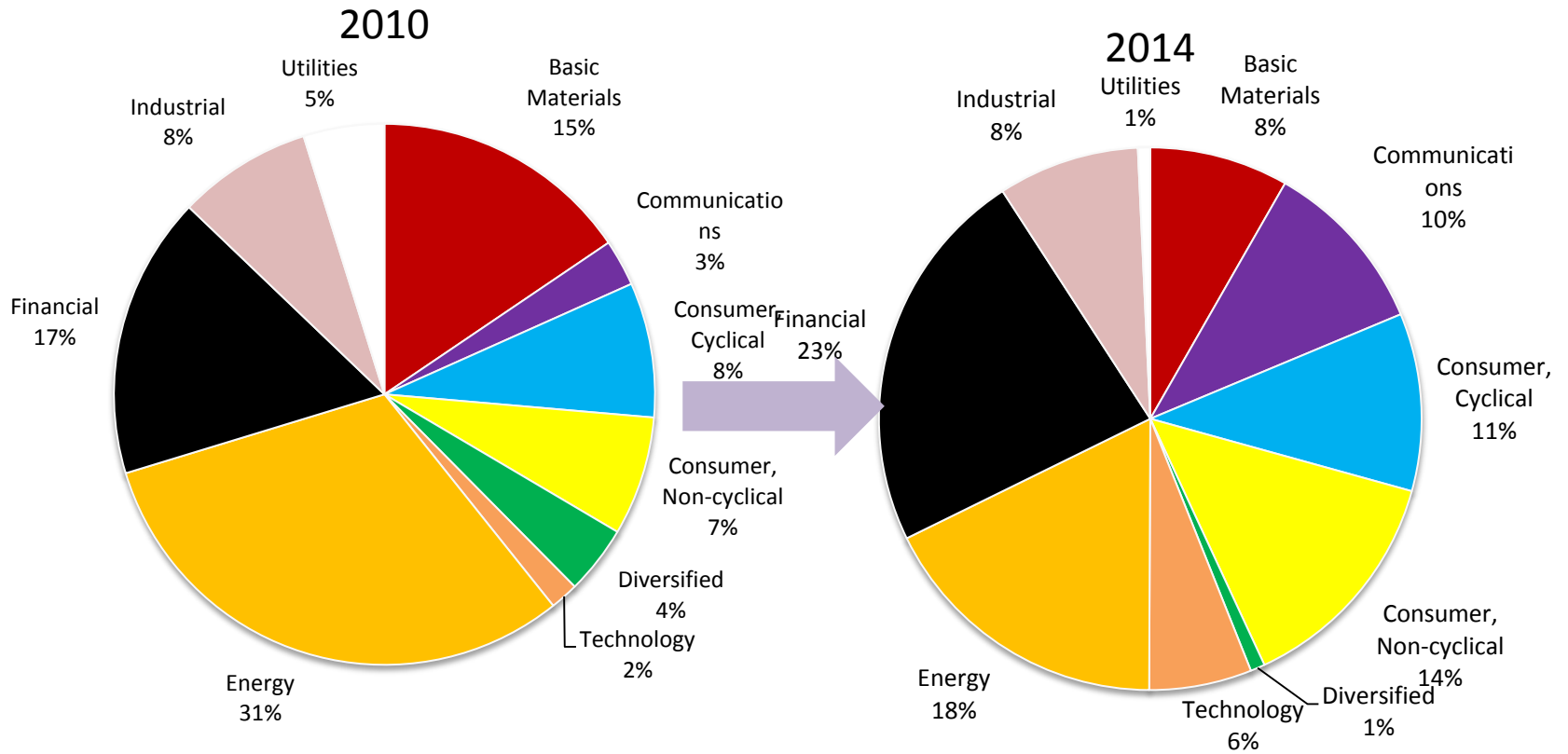


Source: Chinese National Bureau of Statistics, Chinese Ministry of Commerce



3-4 What is the Trend of China's Outbound M&A?

Volume of Chinese Outbound Deals, Sorted by Sector



Source: Bloomberg

Would Confucius recognize these brands?



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lenovo



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GEELY



These economic developments amount to two Major Initiatives in China

- Asian Infrastructure Investment Bank (AIIB)
- One Belt One Road Initiative

Would Confucius Approve China's "One Belt One Road" Economic Cooperation Initiative?



Barriers to these Initiatives

- Lack of international experience
- Lack of understanding of other cultures
- Lack of community engagement experience overseas.

China's Failed Global Grasp

From 2005 through 2009, China has seen 40 business deals each worth \$100 million or more fall through, with an aggregate value of more than \$130 billion. Here are some highlights of China's losses.



\$19.5 billion
Chinalco's bid for a larger stake in Rio Tinto in 2009 collapses.



\$18 billion
CNOOC attempts to buy UNOCAL in 2005, but is sidetracked by U.S. politicians.



\$13.5 billion
China Development Bank's 2008 bid for Germany's Dresdner Bank is killed by Chinese regulators.



\$7.15 billion
\$8 billion China Civil Engineering upgrade of Nigerian rail lines in 2006 shrinks to \$850 million.



\$600 million
Huawei's bid in 2008 for a stake in 3COM pulled due to U.S. government opposition.

Source: Heritage Foundation dataset, China Investment Tracker, non-bond transactions over \$100 million, from 2005 to 2009, available upon request from The Heritage Foundation.

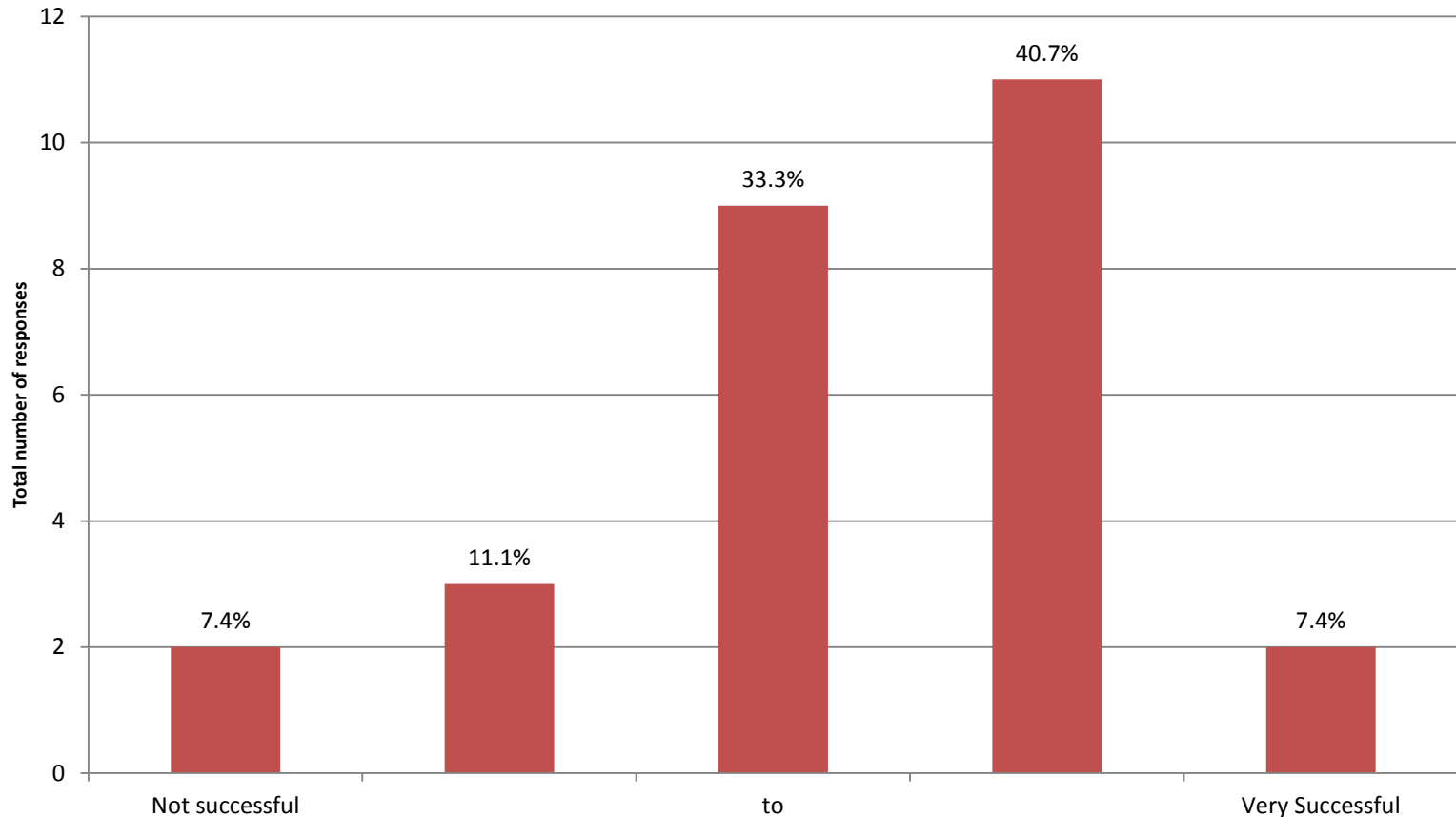


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48. On a scale of one to five, how would you rate the success of your firm in the U.S. market over the past three years?



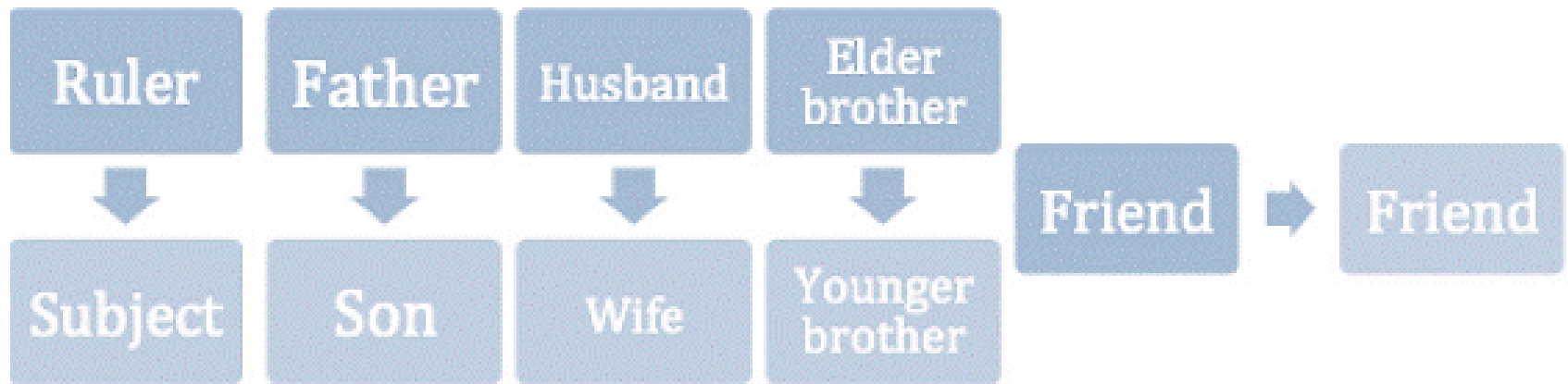
Question

- What advice would Confucius offer to these firms?

Confucius' Six Key Values

- **Li**: includes ritual, propriety, etiquette, etc. 礼
- **Xiao**: love within the family: 孝
- **Yi**: righteousness 义
- **Xin**: honesty and trustworthiness 信
- **Ren**: benevolence, humaneness towards others; the highest Confucian virtue 仁
- **Zhong**: loyalty to the state, etc. 忠

The Five Cardinal Relationships



He He Management Philosophy 和合性管理思想

- *He* 和: peace and harmony
- *He* 合 : unity and cooperation
- *He He* Management Philosophy: based on Confucius philosophy and focuses on harmony and unity
- The essence is that which engenders peace, and harmony, balance among nature, society, human relations, the inner being and civilisation.
- *He-he* management advocates humanistic management

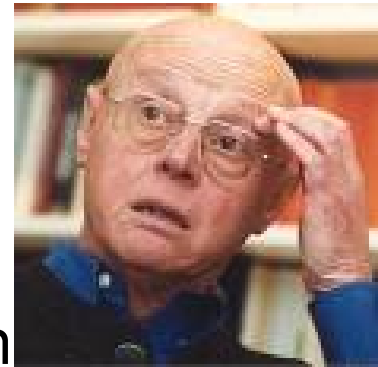
The *He He* Management Philosophy

- Huang (2008) argues that the *He-he* management style believes that “harmony brings wealth, cooperation leads to success,” invokes the principle of “people first”, peace, harmony and unity, and this could be applied to modern day Chinese management style.
- The Confucian philosophy of peace and harmony has a universal relevance for modern management.

Collectivism and Group Orientation

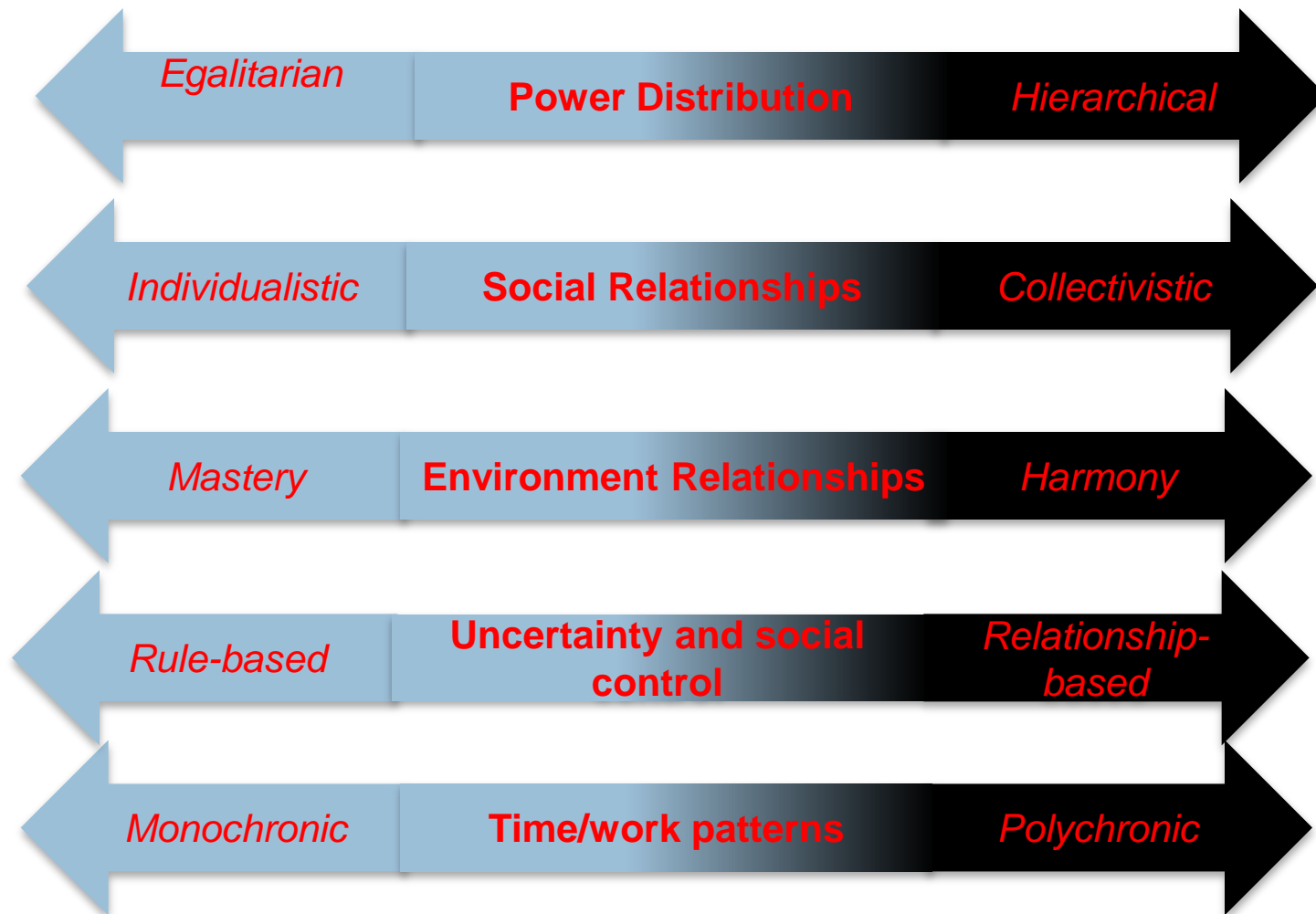
- The Confucian doctrine stresses kinship ties and group loyalty in the Chinese management style.
- This line of reasoning within the Chinese management style reinforces the Chinese business and management philosophy of strength in unity and group harmony. Organizational conflicts are dealt with through intragroup mediation rather than the external legal system (Schlevogt, 2002).

Comparing to Geert Hofstede



- ◆ IBM employees (codename Hermes) in
Employee type matched across countries = marketing and servicing - are these good representations of a national culture?
- ◆ Data collected in the 1967 and 1973
How have cultures changed since then?
- ◆ Later enlarged sample to 50 countries

Core Cultural Dimensions Based on Hofstede's Theory



From Confucius to Hofstede

- Many studies based on Hofstede's cultural theory show that businesses perform better when they expand into markets that have similar cultures. Hofstede's cultural theory provides some backbone explanation for these findings.

Questions remain:

- What lessons should Confucius teach modern China as it pushes forward with One Belt One Road Initiative and AIIB?
- Will Ren, Li and Yi be sufficient in creating social harmony and engaging in local communities?
- How should He He management philosophy be implemented in these initiatives?



How is He He Management Philosophy Manifested in Chinese Firms' Community Engagements Overseas?

- Study One: Chinese firms in Africa
- Study Two: Chinese firms in Australia

Study One

- Selmier, Newenham-Kahindi and Oh (2015)
- Settings: 15 MNEs from different countries in East Africa
- In-depth interviews

Table 6 Linking CSR models with MNE language acquisition policy

Key challenges in CSR	MNE approach to CSR	MNE language policy
Addressing needs of CofP	Local activities (responsiveness)	Employ local languages and/or leadership models <ul style="list-style-type: none"> ● Communicate on local level ● A relational focus emphasizing community – adopting a “Language-as-right” orientation
		
Employee training, retention and management Satisfying customers; Interfacing with government; Effective environmental policy	Regional/national participation	Employ a regional <i>lingua franca</i> <ul style="list-style-type: none"> ● Communicate on many levels from regional to national to local ● A balanced approach emphasizing efficiency – adopting a “Language-as-resource” orientation
		
Participatory governance; Transparent, well-communicated operations	Global strategy (integration)	Employ English as a global <i>lingua franca</i> <ul style="list-style-type: none"> ● Communication within the MNE ● Communication with global organizations ● Adopting a “Language-as-problem” orientation ● A transactional approach may suffice with targeted institutions and groups

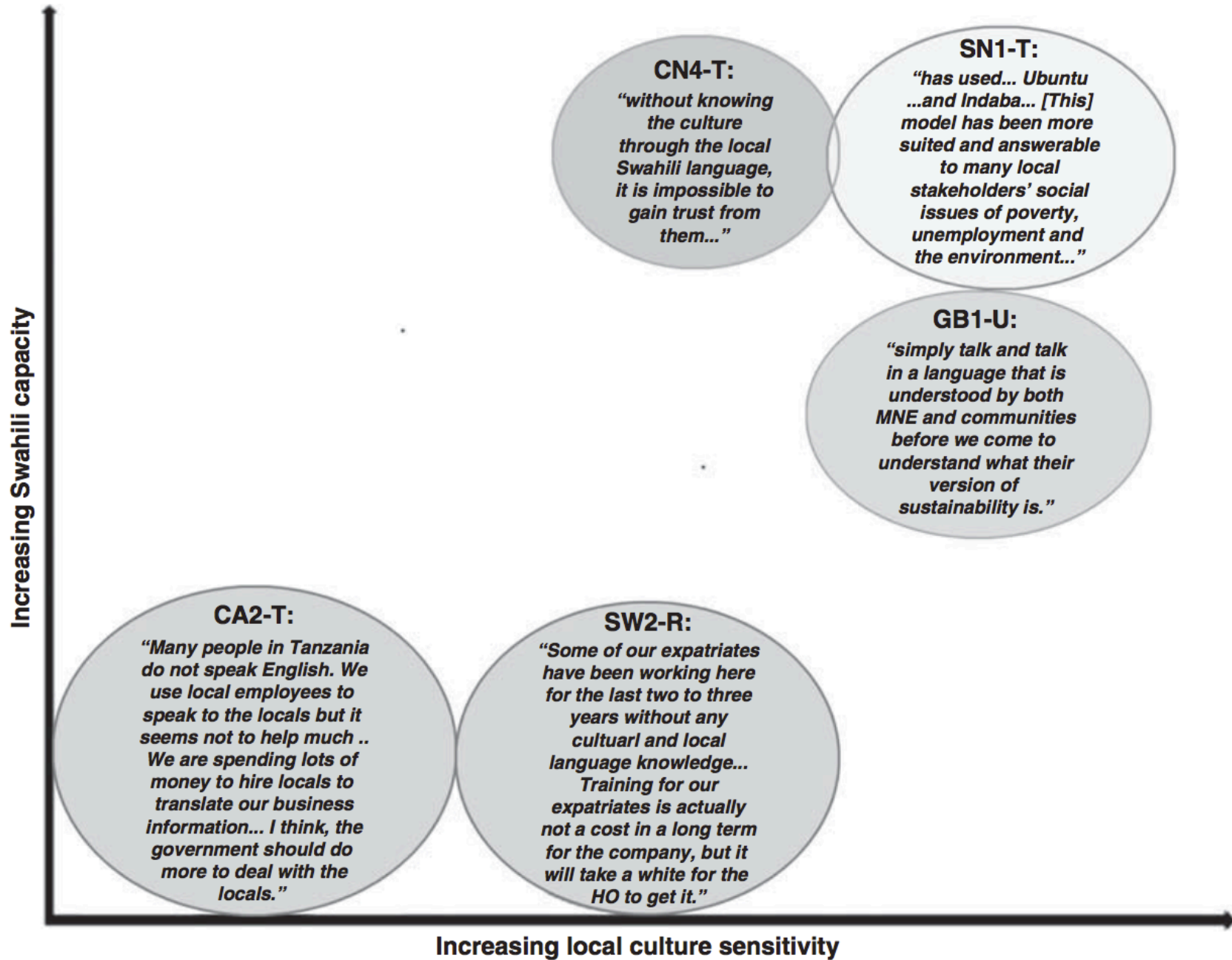


Figure 2 Acquiring language and cultural resources

Table 7 MNE language policy and CSR outcomes

	MNE code	Locations of operation	Management language used			Interpreter/ translator use	Language policy orientations [Problem, Resource, Right]	Language training [months]	Local leadership practices used?	CSR-related strife level
			Corporate	Global CSR	In East African CSR					
Increasing levels of CSR success noted during CoFP interviews ↑	CN1	Tanzania; Burundi	English/ Chinese	English	Swahili	No	Problem, Resource and Right	6	Yes	None
	CN2	Tanzania; Uganda	English/ Chinese	English	Swahili	No	Problem, Resource and Right	6	Yes	None
	CN3	Tanzania; Uganda	English/ Chinese	English	Swahili	No	Problem, Resource and Right	6	Yes	None
	CN4	Tanzania; Uganda; Rwanda	English/ Chinese	English	Swahili	No	Problem, Resource and Right	6	Yes	None
	CN5	Tanzania; Burundi; Rwanda	English/ Chinese	English	Swahili	No	Problem, Resource and Right	6	Yes	None
	ZA1	Burundi; Tanzania	English	English	Swahili	No	Problem, Resource and Right	6	Yes	None
	GB1	Tanzania; Rwanda; Uganda	English	English	Swahili	No	Problem, Resource and Right	3	Yes	None
	SN1	Tanzania; Uganda	English	English	Swahili	No	Problem, Resource and Right	6	Yes	Low
	SW1	Rwanda; Tanzania	English	English	English	Yes	Problem and Right	1	Minor	Medium
	SW2	Rwanda; Uganda; Tanzania	English	English	English	Yes	Problem and Right	1	Minor	Medium
	AU2	Burundi; Uganda; Tanzania	English	English	English	Yes	Problem – recognized and addressed	ND	Not apparent	High
	CA1	Tanzania; Uganda	English	English	English	Yes	Problem – recognized, not addressed	ND	No	High
	CA3	Uganda; Rwanda; Tanzania	English	English	English	Yes	Problem – recognized, not addressed	1	No	High
	CA2	Tanzania; Uganda	English	English	English	Yes	Problem – recognized, not addressed	1	No	Extensive

Note: "ND" = not disclosed.

Study Two

- Charles Huang, Warren Staple and Xiaohua Yang
- Setting: Chinese firms investing in mining sectors in Western Australia
- Three case studies

Figure 1 The relationship between stakeholder salience, and community engagement performance and the moderating factor of organizational identity

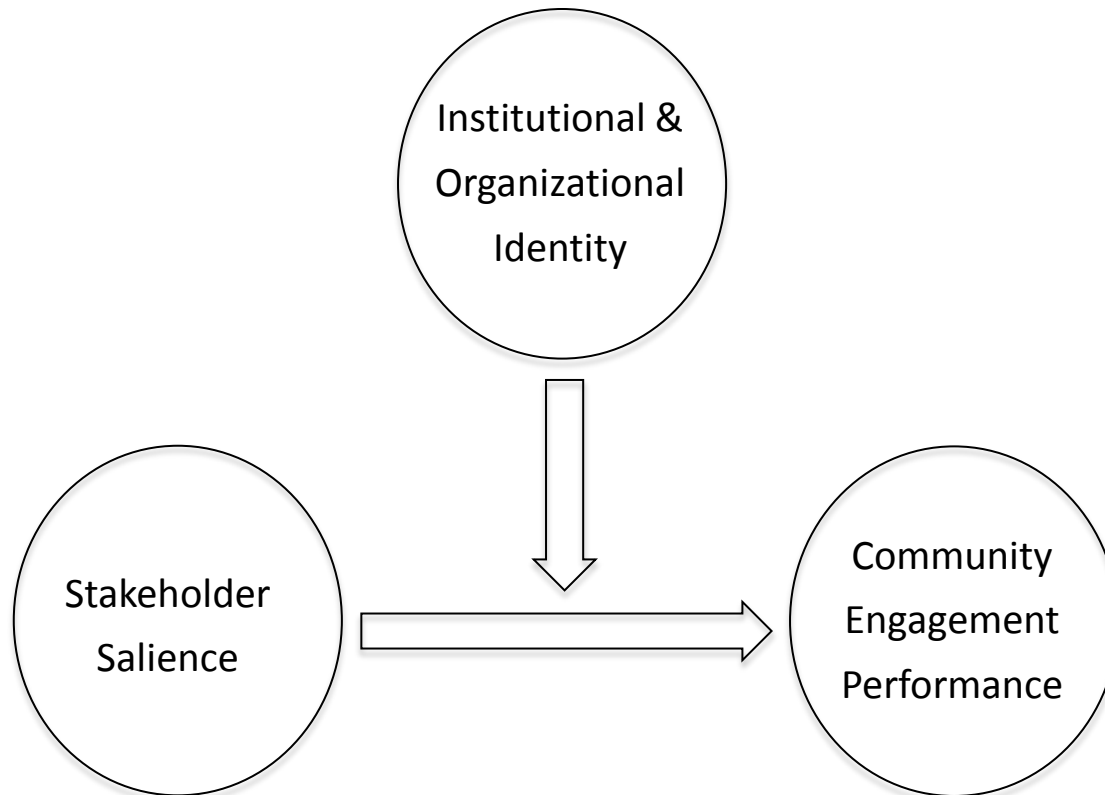


Table 1 Key characteristics of these three Chinese-controlled entities and their parent companies

	Sinosteel Midwest Corp		MMG		Karara	
Investment	AU\$1.4 billion	SMCL	\$1.38 billion in 209, \$1.3 billion in 2012, and \$7 billion in 2014		\$3 billion	
Major operations	Integrated steel production	Mining (hematite iron ore), about 200 million tonnes annually with revenue of	Primarily integrated nonferrous metals production	Non-ferrous metals mining; multiple locations (Western Australia, Queensland, and Laos)	Integrated Steel production	Mining (magnetite iron ore)
Ownership		100% wholly-owned subsidiary		Listed in Hong Kong Stock Exchange and 72% owned by Chinese parent company		Was a 50-50% JV, but became 52-48% as Australian partner had difficulty in securing further funding.
Entry Mode		Brownfield		Acquisition		Greenfield
Time of entry		2008 before the Global Finance Crisis (GFC)		2009		2006
CEO		Chinese expatriate		Australian CEO retained		Australian CEO appointed
Key Institutional membership	UNGC participant since 03/2008		UNGC participant since 09/2009, LEAD Participant;	ICMM, MCA		
Sustainability reporting	Annual sustainability report, UNGC 10 Principles & CASS – CSR 3.0	Sustainability report (09), no further reports were found. Its website has published scattered information on CSR	Annual sustainability report since 2010, UNGC 10 Principle, CASS 3.0, GRI 4 – externally certified.	GRI reporting, GRI – externally certified	Annual sustainability report (08-11). GRI, CASS-CSR2.0. No reports were found in its Website after 2011.	Annual report via the Australian partner’s annual report and its (no sustainability report), and Website.
Revenue in 2013	139.9 billion yuan Number of employees: 32,491 Asset: 110.1 billion yuan	Not reported and estimated about \$300 millions: 50 employees (25	Revenue and profit of 414.7 and 6.5billion yuan with Overseas operation contributing 98.3 billion yuan and 4.47 billion (23.7% & 69.13% of the			

Sinosteel Midwest

	Sinosteel Midwest	Governance model	Examples of activities
Local Government	Community development funds (\$100K) a year Infrastructure maintenance fund (\$1.1m)	Partnership: One local government official One company representative Two local community representatives	Upgrading community sport facilities (e.g., solar panels of sport club, upgrading local tennis court, and purchase of community bus).
Community	Community benefits funds	Internal control; discretionary and based on applications	School passport programs; Midwest life education; Sponsoring a local social enterprise; sponsoring to a regional road safety promotion program.
Aboriginal community	Discretionary programs and projects	Internal control; discretionary	Donation to a local football club that recruit aboriginal football players,

MMG

	MMG (Golden Grove)	Governance model	Examples of activities
Local Government	Community development funds (\$45k) a year	Internal control	Contribution to the employment of two coordinators in the local shire: Community & Youth development, and a community-caring group.
Community	Community investment funds	Internal control; discretionary and based on applications	School passport programs; Sponsoring sport events.
Aboriginal community	Aboriginal community funds	Internal control; discretionary	A pre-employment training and mentoring program targeting on the aboriginal community in the region.

Karara

	Karara	Governance model	Examples of activities
Local Government: Production local government (C)	Transition local government (A)	Internal control	No specific community benefit funds Providing scholarship and apprenticeship to local schools
Community (land owners)	Specific community engagement funds	Internal control;	Building three houses and lease to the local governments for community services at the request of the land owners who agree land access by the company for its linear infrastructure.
General communities	A variety of community engagement programs	Internal and partnership	Mobile dental clinic; Community Farm, RDFS, Innovation Park
Aboriginal community	Aboriginal community funds	Internal control and partnership	Innovation Park,

Some Tentative Conclusions

- Confucian philosophy and its core values may provide most effective soft power needed for China to move forward with its One Belt One Road and AIIB Initiatives.
- Chinese firms are well advised to expand into cultures with similar cultural values to ensure effective engagement with local community and stakeholders before venturing into markets with different values
- Confucian philosophy has potential to be integrated even into Western that have been playing increasing emphasis on CSR and community engagement.
- He He Management Philosophy might be the next thing to be exported from China.

Quote from Marshall Meyer, Chinese Management Expert from UPenn

“I believe, Chinese practices will figure prominently in managerial thought globally, not just in China. Today, management practice is developing rapidly in China. Still, a rough measure is employment in market-oriented firms. Today, the number of Chinese employed in market-oriented firms exceeds 150 million, the size of the entire U.S. labor force.”

The background features a misty, blue-toned landscape of mountains and water. Overlaid on this are vertical columns of Korean calligraphy in a traditional style. The characters are semi-transparent and include words like '나랏말싸미' (National Language), '語音' (Phonology), '어학' (Linguistics), and '中國' (China).

Thank You!

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