

Applicability of Daoism, Confucianism, and Mencian Thought to Modern Corporate Governance in the Maritime Shipping Industry



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Abstract This study explores the applicability of ancient Chinese philosophy—namely, Daoism, Confucianism, and Mencian thought—to current considerations regarding corporate governance in the maritime shipping industry. It adopts the ethical thought in Laozi's *Daodejing*, considerations on humaneness and soul in Confucius' *Analecets*, and Mencius' account of moral spirit and humane governance. These ideas are then applied to the principles of corporate governance put forward by the Organization for Economic Development. The results show that Daoism has positive effects on Confucianism and on Mencian thought, but only indirect effects on corporate governance. However, Confucianism has a positive influence on the thought of Mencius, and Confucianism and Mencian thought play a significant role in corporate governance. This study considers ways by which Chinese corporate leaders can establish ethical criteria based on Confucianism and Mencian thought. An empirical study was conducted among 118 stakeholders in the maritime industry. To test the relationship, structural equation modeling was used to uncover the relationships among Daoism, Confucianism, Mencian thought, and corporate governance.

Keywords Daoism · Confucianism · Mencian · Corporate governance

1 Introduction

As demonstrated by the Enron scandal, executives can create a negative culture that sets the stage for self-interested action and unethical accounting that influences employees and organizational behavior (Treviño et al. 2003) In 2008, the Lehman Brothers scandal played a major role in the financial crisis that subsequently destroyed worldwide economic development and political stability. Such events provide lessons on the importance of corporate governance. Leadership is influenced by a set of processes, customs, policies, laws, and institutions that affect

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how a corporation is directed, administered, and controlled. Shareholders influence the behavior of managers to ensure that a company is run according to their interests (Hemalin and Weisbach 2003) and according to Western models of governance whereby shareholders bear the ultimate responsibility for avoiding moral hazards (Ward et al. 2009). Indeed, corporations act in their own interest and can change the rules of the game to ensure that their interests are protected (Bragues 2008).

Inadequate corporate governance is also a key factor in failures of Asian corporations (Meng and Liang 2011) and these problems can be attributed to the ethics and moral character of individuals. According to the Organization for Economic Development (OECD), companies are encouraged to disclose policies relating to business ethics, the environment, and other public policy commitments (OECD 2004), and government has an important responsibility and must be sufficiently flexible to allow markets to function effectively and to respond to the expectations of corporate governance.

Kelly (1990) argued that ethical leaders are valuable and that prosperity-seeking organizations should obtain the social services of such leaders, whose ethical behavior is the result of a socialization process (Jones 1995). Thus, this is empirical evidence that suggests preventing future ethical breakdowns. Leaders have received much attention as a means of protecting corporate governance and providing structures and processes by which to direct and manage organizations. They deliver on management accountability and thus protect corporate governance. An ethical leader will increase ethical awareness within organizations linked to corporate objectives as an element of management discourse (Husted and Allen 2000). Fulmer and Barry (2009) demonstrated that a positive mood can reduce critical thinking and concern regarding dubious unethical activities. Treviño et al. (2003) argued that leaders should engage with ethical figures who are concerned with the community and society. Ethical leaders are pressured to behave in a socially responsible manner (Campbell 2007). Effective corporate governance relies on both the internal moral behavior of leaders and the external ethical considerations that control the systems that cover corporate managerial boards when disclosing unethical or unlawful behavior in corporations (Ward et al. 2009). Leadership structures encourage and facilitate the occurrence of occupational crime (Zahra et al. 2005).

This study focuses on the applicability of ancient Chinese philosophy—specifically, Daoism, Confucianism, and the thought of Mencius—to modern Chinese corporations, and compares ancient ethical considerations to corporate governance guidelines set forth by the OECD. Ethical behavior is sometimes defined merely as acts and behavior that exceed moral minimums (Treviño et al. 2006). OECD efforts on corporate governance will help to develop a culture of values that pertain to professional and ethical behavior on which well-functioning markets depend. Corporate governance focuses on legislative policy to deter fraudulent activity and promote transparency—although, as such, it merely treats the symptoms and not the cause of the problem (Gabrielle 2003). Indeed, structural reforms of the type promoted by the corporate governance movement will do little to prevent the recurrence of widespread wrongdoing (Bragues 2008). Thus, the aim of this study is to investigate

corporate governance from the perspective of Daoism, Confucianism, and Mencian thought, with particular focus on the maritime shipping industry.

2 Criteria of Daoism, Confucianism, and Mencian Thought

China is one of the cradles of world civilization, ancient China venerated Daoist wisdom as the harmony between humans and nature, and the need for calmness during the vigorous interaction of *yin* and *yang*. The Bible in the West and Laozi's writings in East have been translated frequently, and they have spread widely around the world. Laozi's *Daodejing* has been venerated, and Laozi himself has been worshipped as a god. The ideal of humaneness and the concept of harmony is central to Confucianism, and its founder, Confucius, was venerated by later generations as a sage and a holy teacher. Mencius was posthumously given designated the Second Sage of Confucianism during the Yuan Dynasty, insofar as he reformed Confucian doctrine and served as its interpreter. As an academic value system, Mencian thought continued to be so used during the Ming and Qing Dynasties, forming the core of the new classical studies. Confucian indicated the governance paths that initially step is making personal will sincere to depends on setting one's soul right to regulate the home, govern the nation, and, ultimately, to restore peace in the world. Meng (2013a) argued that ethical leaders often adopt Mencian ideas as a key element in the long-term development of enterprises, whereas leaders with poor ethics will negatively influence the operation of organizations. Thus, Mencian thought can be used by ethical leaders to solve governance problems. High ethical standards are in the long-term interests of a company as a means of credibility and trustworthiness, not only in daily operations, but also with respect to longer-term commitments (OECD 2004). Zheng (2004) showed that the existence of corporate governance can restrain the morally hazardous behavior of entrepreneurs in China. It is thus important that Chinese leaders follow Daoism and Confucianism to establish suitable corporate governance criteria. Although corporate governance is confronted with business laws and mechanisms, the ethical and moral virtues of leaders are more useful to governance and less at risk of being mistreated. A survey of the literature on Daoism, Confucianism, and Mencian principles for current corporate governance revealed evidence suggesting that regulatory and legal structures should be altered to improve the ethical and moral codes of corporate governance. Modern laws and regulations hold little promise, but the prevention of corporate misconduct can be facilitated by ancient Chinese philosophical codes (Meng and Liang 2011). This means that workable Confucian and Mencian ideas can be used by ethical leaders to alleviate negative selfish actions by providing internal control systems with appropriate audits, and by communicating with boards of directors and treating corporate governance fairly.

This study first established the parameters for four constructs: Daoism, Confucianism, Mencian thought, and corporate governance. Thus, we obtained an overall definition of an ethical leader. First, Laozi's *Daodejing* (DDJ) and the work of Meng and Liang (2011) were used to generate the ethical criteria for ten survey items

based on Daoism. After reviewing the *Analects* related to humaneness and adulthood in Meng (2019), we added ten survey items based on Confucianism. Considerations regarding moral spirit and humane governance, as described in Meng (2013a), provided ten additional items based on Mencian thought. Finally, the OECD principles of corporate governance in Meng (2013b) comprised the last ten survey items based on modern corporate governance.

3 Methodology and Model

The aim of this study was to determine the main factors that influence the ethics and moral behavior of corporate management in terms of ancient Chinese philosophy. The popular seven-point Likert scale was used (Gallarza et al. 2002; Meng and Liang 2011). Based on ancient Chinese philosophy and OECD guidelines, a list of 40 items (see Table 1) was included in the questionnaire Windsor (2006). argued that corporate self-restraint and altruistic activities can serve to expand public policy and benefit stakeholders. Using discriminant analysis of our four constructs of corporate governance, we developed and validated a concise model that establishes ethical mechanisms to prevent internal control failures. The viewpoint of various stakeholders can provide an acceptable overview of the different theoretical perspectives of corporate governance (Dignam and Lowry 2006). Thus, these questionnaire items were pre-tested on 30 stakeholders from the shipping industry. After validating all 40 items, the survey was distributed to 150 members of the shipping industry from August to October, 2019. Of these, 124 questionnaires were returned, and six questionnaires were discarded because they contained incomplete information. Therefore, there were 118 usable responses in total, for an overall response rate of 78.6%. Statistical analyses and factor analysis were conducted using SPSS. Factor analysis was performed to investigate any separate underlying factors, and to reduce redundancy. To test the relationship, we used structural equation modeling on the four structures (viz., Daoism, Confucian, Mencian thought, and corporate governance) using AMOS.

All of the candidate fitness assessments indicated a good fit, with $\chi^2 = 3002.480$, $df = 681$, a comparative fit index of 0.713, a goodness-of-fit index of 0.677, a Tucker-Lewis index of 0.803, and a root mean squared error of approximation of 0.150. The results shown in Table 1 indicate that the measurement model met the discriminant validity criterion. The structural model used to test the relationships consisted of all four latent constructs.

The test results for the proposed model are shown in Table 2 and Fig. 1.

For all structural path estimates, Daoism was positively linked to Confucianism ($\beta = 0.877$, $P < 0.001$) and Mencian thought ($\beta = 0.548$, $P < 0.001$), but was not significantly linked to corporate governance ($\beta = 0.031$, $P > 0.05$). Confucianism was positively linked to Mencian thought ($\beta = 0.381$, $P < 0.001$). Confucianism ($\beta = 0.335$, $P < 0.001$) and Mencian thought ($\beta = 0.463$, $P < 0.001$) were both positively

Table 1 Standardized loading (SL), Cronbach’s α , CR, and AVE for the model

Construct and items	SL	t-value
<i>Daoism</i> ($\alpha = 0.812$; $CR = 0.871$; $AVE = 0.78$)		
Leader behaves with civility and humility	0.716	14.190
Leader is caring and virtuous	0.734	15.216
Leader is committed to advocacy of moral concepts	0.784	14.261
Leader has industrious and frugal habits	0.612	11.127
Leader has an ethical mind from the perspective of people	0.788	21.486
Leader is selfless in relation to the company and society	0.729	17.418
Leader has great moral faith	0.789	19.114
Leader exhibits goodness and integrity	0.746	23.482
Leader sacrifices his own interests to share with others	0.812	16.657
Leader shows patience and peace of mind	0.788	17.472
<i>Confucianism</i> ($\alpha = 0.768$; $CR = 0.801$; $AVE = 0.78$)		
Humaneness characteristics behave with ritual heart	0.641	18.719
Humaneness characteristics is moral to be worthy of appreciation	0.785	17.647
Humaneness characteristics are committed to within the class of charity	0.785	17.420
Humaneness characteristics stay alive at the expense of faithfulness	0.818	19.427
Humaneness characteristics are determined intellectual man	0.765	17.567
Manhood soul is being trustworthy treats employees	0.689	16.541
Manhood soul purses the goal being a bravery man	0.785	17.850
Manhood soul is responsibility without forming cliques	0.798	16.912
Manhood soul cares for working environment, protect employee benefits	0.801	18.401
Manhood soul takes care of humane love	0.831	17.454
<i>Mencian thought</i> ($\alpha = 0.871$; $CR = 0.867$; $AVE = 0.83$)		
Moral spirit behaves with care and humility	0.712	14.962
Moral spirit is loving and righteous	0.856	19.142
Moral spirit is committed to the resolution of righteousness	0.805	19.084
Moral spirit behaves with care and humility	0.799	17.121
Moral spirit is selfless to society	0.451	8.610
Humane governance implements taking care of a humane government	0.767	19.452
Humane governance implements the mind to produce an enduring nature	0.901	21.481
Humane governance implements producing a sudden seizure of righteousness used to control the mind	0.785	19.149
Humane governance implements taking care of a humane government	0.804	16.422
Humane governance implements treating employees with respect for their culture and civil rights	0.912	24.312

(continued)

Table 1 (continued)

Construct and items	SL	<i>t</i> -value
<i>Corporate governance</i> ($\alpha = 0.864$; $CR = 0.844$; $AVE = 0.86$)		
No approval of material transactions without a majority vote at shareholder meetings	0.811	23.478
Remuneration for directors and supervisors determined at shareholder meetings	0.772	18.412
Details on the fairness and legitimacy of management remuneration and bonuses are disclosed	0.798	18.118
Details on employee salary, benefits, on-the-job training, pension plans, and company support of employee rights are disclosed	0.713	15.542
Insider trading and abusive self-dealing are prohibited	0.687	11.442
Disqualified directors should be removed from office by a resolution adopted at a shareholder meeting	0.612	9.412
Implementation of major resolutions approved by management	0.785	15.954
Annual dividends fairly distributed among shareholders	0.745	16.412
Relevant and material information on the corporation disclosed in the annual report to shareholders	0.779	15.897
Leaders secure the methods of ownership registration for corporate governance	0.912	19.987

Table 2 Test results

Relationship		Standardized parameter estimate	<i>t</i> -value	Result
Independent variable	Dependent variable			
Daoism	Confucianism	0.877	11.14	Linked
Daoism	Mencian thought	0.548	7.64	Linked
Daoism	Corporate governance	0.031	0.42	Unlinked
Confucianism	Mencian thought	0.381	5.65	Linked
Confucianism	Corporate governance	0.335	7.03	Linked
Mencian thought	Corporate governance	0.463	9.21	Linked

linked to corporate governance. Overall, five of the six proposed relationships tested using the structural model were linked.

4 Results and Conclusion

According to the research results, Daoism positively affects Confucianism and Mencian thought, but has only an indirect effect on corporate governance. Confucianism positively influences Mencian thought; in addition, Confucianism and

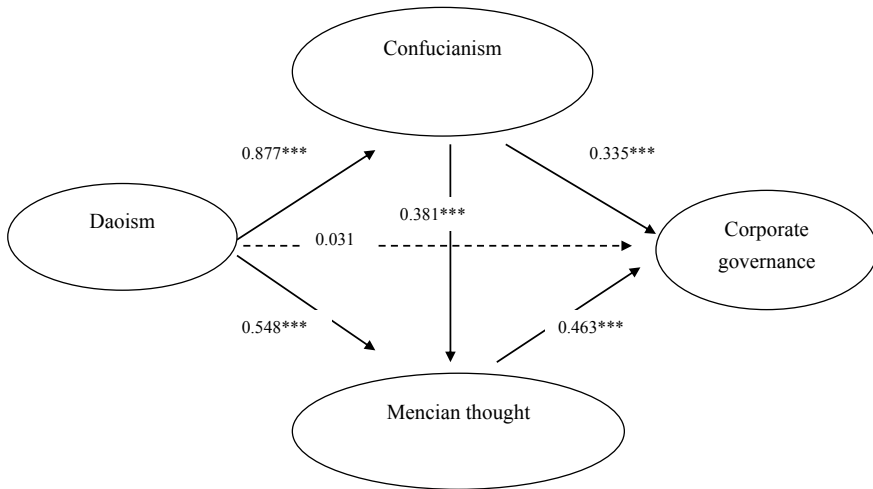


Fig. 1 Internal consistency of the model. *** P < 0.001

Mencian thought play a significant role in corporate governance. The overall framework for Daoism goes beyond Confucianism and Mencian thought. This process should be underpinned by legal protections for corporate leaders in the maritime industry. Company-specific characteristics have been suggested as important contributors to understanding the differences in corporate governance mechanisms in a given system (Weir et al. 2002). Effective corporate governance can disperse exploitative action by unethical leaders. Confucianism and Mencian thought provide mechanisms that can ensure that modern corporate leaders operate ethically. La Porta et al. (2000) concluded that the role of corporate governance is to enforce ethical codes. **The type of corporate governance favored by various ethical and moral codes reflects differences in corporate governance.** Daoism, Confucianism, and Mencian thought can be implemented by today’s boards of directors, audit committees, management, and personnel, to provide reasonable assurances of reliable financial reporting, operating efficiency, and compliance with laws and regulations. Arjoon (2005) argued that there is a tendency to overemphasize legal compliance mechanisms. Philosophical practices based on the principle of equity should be understood in terms of the governance environment. China has a more relation-based governance system, as it lacks a comprehensive rule of law (Li and Filer 2007), and corporate governance has traditionally sought to use this as the main parameter when evaluating leaders. Hence, this research suggests that property rights—and, by implication, an increasing amount of corporate governance-based practices—are gaining awareness regarding the role of a firm’s Confucian policies. Board members are also playing an increasingly important role in monitoring the actions of corporations and their efforts to conduct business in environmentally and socially responsible ways (Armour et al. 2003). The study showed that for the common aim of facilitating Confucianism and Mencian thought, the choice and ultimate design depends on the overall research

framework. Business ethics and corporate awareness of the environmental and societal interests of the communities in which companies operate also have an impact on their reputation and long-term success (OECD 2004). Both Confucianism and Mencian thought should interact with corporate governance in a transparent manner to monitor the conduct of management.

According to the OECD (2004), corporate governance objectives are also formulated in voluntary codes and standards that do not have legal status, leaving management and other stakeholders with uncertainty concerning their status and implementation. Organizations must address procedures and structures to repair moral legitimacy and illegitimate organizational structures, which have a negative effect on the moral legitimacy of Chinese firms (Wang 2010). Hence, this study identified 40 governance criteria for leaders to take into account for effective enforcement, including the ability of leaders to deter dishonest behavior and to impose effective sanctions for violations. An ethical leader is a key person, and evaluations of ethical leadership are likely to depend on subjective perceptions of a leader's character and motives (Treviño et al. 2003). This study conceptualized the viewpoint of stakeholders regarding empirical applications of new evaluations of the ethical and moral criteria. This study demonstrated that Daoist ideas of leadership are negatively related to corporate governance, when leaders cannot address corporate governance through OECD principles. It also found that Confucian and Mencian programs and policies are successful. Garriga and Mele (2004) argued that leaders can cement the relationship between business and society. Doing so would provide a system for structuring, operating, and controlling companies with a view to achieving long-term strategic goals that satisfy corporate governance, creditors, employees, customers, and suppliers, in compliance with legal and regulatory requirements and environmental and local community needs. Meng (2019) emphasized Confucianism in the characteristics of leaders to instill a sense of virtue in terms of the methods and power a leader uses for managerial activities, as opposed to directing leaders with a mixture of laws, regulations, and checks and balances (Meng 2013b). Ancient Chinese thought has modern merit, particularly in terms of corporate governance and the integration of core ethical and moral insights. This study thus proposes that Chinese leaders should establish virtues based on Confucianism and Mencian thought to improve modern commercial societies.

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