The Eastern Way: How Chinese Philosophy Can Power Innovation in Business Today

In spite of spectacular economic growth, China is still afflicted by criticism that its traditional culture inhibits innovation. However, Chinese culture is now changing in response to fundamental techno-economic shifts, and philosophy is not the same as culture. This article shows how an unconventional synthesis of Chinese philosophical systems can power innovation opportunities in 21st century business—and not only for China.

Published: June 18, 2012 | By: Gary Davis

China has been a wonder of the global economy for the past three decades. Its annual growth rate has averaged about 10 percent. In 2010, China passed Japan to become the second largest economy in the world. China fared much better than the West during the recent, 2008-2009 international recession and financial crisis. Chinese scientists, inventors and entrepreneurs are spearheading new research institutes and companies. Government ministries are establishing programs to gain a technological advantage in medicine, clean energy, supercomputers and other fields outside of national defense. China's global ranking in the number of research papers in technical and scientific journals has rapidly risen since the 1990s to second place behind the United States.

In his January 2011 State of the Union address, President Obama called for a new program of innovation in the U. S. partly because of concern about China's recent efforts. The topic of innovation is now prominent in the public agenda of both countries. Given the current slowdown in Chinese economic and labor force growth (and expected increase in wages), innovation will need to become more important in the future if China expects to maintain high rates of economic growth.

Innovation is a broad concept and can be defined as, "the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization, or external relations" (Steven Payson, "Economics of Technological Innovation," 2010, p. 519).

Philosophy and culture are not the same

China bashing is all the rage these days. The conventional Western view is that most of China's recent achievements are based on a conversion to Western modes of rational thought and business philosophy. Even some Chinese, especially those living in America, doubt the business applicability of their own ancient philosophical schools, although many still take great pride in their national heritage. Can the philosophical part of this heritage contribute toward greater opportunities for innovation in business firms of today?

Part of the problem is that the teachings of the philosophical founders, dating to two and a half millennia ago, have become submerged and layered over by Chinese cultural traditions (e.g., patriarchal families) and bureaucratic practices. The ruling dynasties of China, for example, often conflated principles of absolute power espoused by the Legalist school with Confucian values of humanity and reciprocity.

In this article, we try to separate out Chinese philosophy from culture and history. We also step away from the current divisive political context. There is a way to look at Chinese philosophy that is practical from a mission-oriented business perspective. First, strip it down to core principles that are

rational and flexible in modern economic circumstances. Second, present the relevant teachings of different Chinese schools—especially Confucianism and Daoism—as one overarching philosophical system applicable to business from both a managerial and technological standpoint.

…it is now appropriate to restate Chinese philosophy within a more competitive and high-tech economic context, without an overlay of rigid customs from the pre-industrial era.

Third, recognize that the basic conditions of present-day China are vastly different from the China of the distant past. The dominant social hierarchies of modern China reside within state-capitalist business firms, not within the traditional, unchanging, rural family. This means that it is now appropriate to restate Chinese philosophy within a more competitive and high-tech economic context, without an overlay of rigid customs from the pre-industrial era. Obviously, one cannot argue that the values of Chinese philosophy are completely divorced from long-standing patterns of Chinese culture. But the usefulness of this philosophy for business should at least be re-evaluated given that the economic and technological underpinnings of Chinese culture have substantially changed over the past generation. There is also much greater social mobility in the China of today.

Core principles of Chinese philosophy for modern business

Two major schools of philosophy grew up in China around the middle of the first millennium BCE—Confucianism and Daoism (Taoism). A third major body of philosophical thought, Buddhism, came to China from South Asia during the early centuries of the first millennium CE. There was eventually a convergence between many principles of these three schools of thought.

Confucianism and Daoism offer a body of social values and causal worldview that, when combined, can stimulate creative opportunities within organizations. From a business perspective, the combination of these two schools as a philosophical system is more useful than the principles of each school considered separately. This is because a business concern operates simultaneously in multiple environments—social, technological, economic, etc.

Confucian harmony and difference

First, what core values can we extract from Confucianism, which is currently enjoying a resurgence in China (and within hundreds of Confucius Institutes established in the U. S. and worldwide)? Confucianism is often interpreted narrowly in the West as a form of strict, tradition-obsessed subordination, especially within the Chinese family. But there is much more to Confucian values than a simple principle of hierarchy. And in any case, business firms, not families, are now the dominant locus of social hierarchies in present-day China. The static rural family is no longer the key unit of production in the Chinese economy; millions of rural Chinese have moved to cities to work for large, export-oriented manufacturing companies. It is therefore worthwhile to ask if Chinese philosophy can provide guidance for innovation in a modern, urbanized, educated, high-tech and change-oriented business environment.

Confucianism advocates a rational and humanistic approach to all relationships in groups and organizations. It does not apply solely to families and ruling dynasties. It assumes that human nature is basically good. Confucian thought places a high value on reciprocity, harmony and honesty within hierarchies and promotes a strong work ethic. Status within organizations should be defined by merit or ability, not by friendship, ancestry or wealth.

The principle of respect by subordinates for their superiors is well known. But the original Confucian system is more complex than this. There is a Confucian maxim that states, "*harmonious while different*." In other words, people in organizations should work harmoniously together while accepting different statuses and viewpoints. Respect is a two-way street.

…ideal Confucian form of business implies a high degree of cooperation between employees at different levels as opposed to obeying a simple unidirectional chain of command.

This reciprocal approach to hierarchy varies, in theory at least, from the classic Weberian, top-down form of corporate bureaucracy prevalent in the West. There is still a clear hierarchy, but the ideal Confucian form of business implies a high degree of cooperation between employees at different levels as opposed to obeying a simple unidirectional chain of command. This feature should enhance productivity and stimulate greater internal sharing of information, technology and research, and thus greater opportunities for innovation. It should be particularly useful for keeping up with today's economic climate of rapid change and intense global competition.

In addition to stressing the value of reciprocity within hierarchy, Confucius (in *The Analects*) exhorts people to seek knowledge and truth, to eagerly question others, and to avoid foregone conclusions and arbitrary predeterminations. One should think for oneself. Acceptance of critique should be mutual between employees of different status. During the old dynasties of imperial China, the ideal Confucian adviser was vigilant and did not abstain from giving corrective advice to the emperor. Obedience to one's superiors did not preclude constructive forms of protest (John Keay, *China: A History*, 2009). Likewise, the ideal Confucian ruler was virtuous, benevolent and concerned for the welfare of his subjects. In modern business, mutual critique can facilitate the development of alternative ideas within research and management teams; teams will then become more vital to the company.

Build up social capital

The Confucian norm of harmony within hierarchy, though not always observed in practice, is unconventional by Western standards. In Western corporate hierarchies, there is often an individualist tension and feeling of opposition between upper and lower positions. Confucian values promote the development of networks of contacts that build up "social capital" within a company. This, in turn, can become a resource for future problem solving and innovation across all aspects of company operations.

Employees in different parts of a company should see themselves as similar and thus cooperative because they all share an attachment to the company's mission or market objectives.

The Confucian style of business is, ideally, *holistic* or nonlinear and organic. Upper and lower positions are complementary rather than opposed. This is a core value of Chinese thought. Similarities are more important than differences. Think of it in terms of *yin* and *yang*—different values that are represented as complementary aspects of one circular whole. Employees in different parts of a company should see themselves as similar and thus cooperative because they all share an attachment to the company's mission or market objectives. By focusing on these goals, they all have the opportunity to contribute, if in different ways, towards innovation within the company.

Likewise, opposing points of view within the business should not be rejected out of hand, as is often the Western fashion. Opposition is a relative concept. The Confucian businessman looks for similarities and complementarities in opposing viewpoints—i.e., how they can fit together—perhaps leading to an innovative synthesis of different ideas. This approach will expand the universe of

creative opportunities.

Daoist 'effortless' mastery

Confucianism is not the only organic philosophy in China that has the potential for modern business and management applications. Daoism, also called Taoism, is another major school of Chinese thought. Whereas Confucianism applies chiefly to relationships between people, Daoism focuses more on the individual's relationship to the surrounding physical and natural world. In modern business terms, this relationship embraces a firm's entire technological and economic environment—including customers, suppliers, competing firms, banks, government agencies, and sources of product and service technology.

Joseph Needham (1900-1995), the most famous historian of Chinese science, stated that China's "… 'organic' conception of the world was precisely that to which present-day science is turning, in contrast to the Newtonian mechanistic view which prevailed until the end of the nineteenth century" (Fernand Braudel, *A History of Civilizations*, 1993, p. 198). Needham believed that Daoism was a major wellspring of inspiration for Chinese science in the pre-modern era. The historian Jacques Gernet wrote regarding China, "She does not like the exclusion of opposition, the idea of the absolute, the positive distinction between mind and matter; she prefers the notions of complementarity, or circulation, influx, of action at a distance, of a model, and the idea of order as an organic totality" (*A History of Chinese Civilization*, 1996, p. 32).

As in Confucianism, harmony, dynamic balance and holism are key Daoist values. One should live and work in harmony with all aspects of the environment. Learning in Daoism traditionally means understanding the *dao*—the central "life force" or "way of nature." How does nature arrive at an organic balance between different forces; how does one become integrated with nature? Such learning is thus a form of ecological study. It is a patient but not a passive process. One seeks to perceive the environment and all of its interrelationships so well that, to outsiders, his or her striving will *appear* effortless. Traditionally, Daoists describe this process as doing by "not-doing" (*wu wei*). The Daoist student hopes to arrive at a point of superior awareness where one instinctively trusts his or her capacity to fully understand the environment. In modern terms, this point also includes an awareness of environmental change, which is a natural part of the technology and economy (demand and supply) of the business firm.

New ideas can flow out of this intensive and holistic type of learning. Stephen Mitchell, a translator of the Daoist classic, *Tao Te Ching*, states that, "Keeping to the receptive allows the creative to arise. Actually, the creative and the receptive are complementary sides of the same process" (Mitchell, 1988, p. 107). Winefreda Asor writes, "The most common way of developing ideas is as follows: …Be aware of everything" (Asor, *Entrepreneurship in the Philippine Setting*, 2009, p. 36).

Business receptivity does not have to be left to chance. It can be enhanced through seminars, surveys, focus groups, internet consumer forums, domestic and global research teams that crosscut traditional lines of authority, and brainstorming sessions.

New importance of company mission

A renewed focus on company mission is useful. The latter, in effect, becomes a dao, or life force, for an innovating business. The mission concept serves as a central linkage between different company units, functions, products, technologies and ideas for change. These differences become complementary—part of an organic whole—because of their connection to the mission concept, which

may change over time and even embrace social objectives, as the company adjusts to its competitive surroundings.

One can also provide a modern economic interpretation for the expansiveness of Daoist thought. A firm should adopt a perspective that internalizes all economic externalities. Ideally, a company's production function should incorporate (to the extent these can be accurately measured) social costs as well as all private costs. Such a comprehensive evaluation of costs may lead to innovations in technology. An example would be new developments in green or sustainable energy technology, such as carbon capture, solar power and wind power. China is already making significant progress in green technology development.

The Chinese paradox

Opposition becomes opportunity, because one looks at the similarities and complementarities of different viewpoints as a way of arriving at a more complex synthesis of ideas.

The discussion above points up a major *paradox.* Chinese philosophy is sometimes dismissed as a static body of thought that reinforces past traditions in relationships between people, institutions and their environment. But if you go beyond this bias and look at the *individual* norms of work behavior in this philosophy—considered separately from past but now obsolete constraints in the economic environment—an alternative perspective emerges. One should cooperate and work harmoniously with the other employees in your company but also be willing to give and receive constructive criticism. Opposition becomes opportunity, because one looks at the similarities and complementarities of different viewpoints as a way of arriving at a more complex synthesis of ideas. And complexity itself is accepted as part of the company's organic worldview. One should strive to master the technological processes underlying company products and also the direction of change in consumer demand, supplier resources and business competition. Such learning should be proactive, not passive absorption—this is the modern corollary of the Daoist "effortless" mastery of nature.

Asian principles of "harmonious while different," mutual critique and full environmental awareness encourage a strong work ethic, the development of social capital and opportunities for creativity. Business innovation nowadays is often a complex product of large teams of scientists, engineers, and IT and marketing specialists. Team members may be ethnically and geographically diverse. Chinese holistic philosophy offers a way to maximize the effectiveness of *both* technological and personnel resources of the company. This strategy is now achievable given the availability of high-speed internet, simulation, cloud computing and other IT resources that break down past constraints of time and information processing. The Chinese philosophical system is intense and demanding but practical—and potentially innovative—for business.

There is a *yin-yang* complementarity to these dynamic changes. The techno-economic universe of the modern business firm is more complex and less stable. Business and IT resources for reacting to and mastering this environment, however, are now stronger and faster. The entire system of managing business change and response operates at a higher state of intensity and awareness—and openings for innovation, perhaps unexpected, are part of the new intensity.

Conclusion: not only for China

The advertisement for a recent course in creative problem solving stated that, "Organizations will continue to be confronted by strategic challenges unmatched in business history." Clearly, the need for a holistic, time-sensitive and IT-responsive understanding of a company's technological, economic

and consumer environment is tied to this strategic challenge. The Chinese philosophical system offers rational guidelines for such circumstances. It places a premium on long-term business *mission* over short-term profit maximization. Following core philosophical norms, employees learn fully, brainstorm intensively, work hard and critique together. For China, it helps that their economy has been growing rapidly. Maintaining high growth over the long run, however, will require a search for, and mastery of, new markets, products and cost-saving technologies. The "eastern way" should be an integral part of this process, and not only for China.

By Gary Davis

About the Author

Gary Davis is an economist working in Washington, D. C., in the United States. In 2009-2010, he published an article, "Contexts for Innovation," in management magazines in both the U. S. and Malaysia. The article recommends a new synthesis of Eastern and Western strategies for business teams. He has studied innovation processes in connection with a position as research team leader. Gary Davis has presented economics papers at seminars and national conferences (e.g., of the Southern Economics Association and Society of Government Economists). He holds a Master's degree in Economics and a Doctorate in Public Administration from George Mason University, Fairfax, Virginia.