

Strategic Intent, Confucian Harmony and Firm Success

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Abstract: This paper argues that by using the Confucian concept of harmony as its strategic intent a firm can be both ethical and successful. Using the work of Peter F. Drucker, Michael Porter, and Gary Hamel and C. K. Prahalad the paper discusses the role of strategic intent as a contributing factor to firm success. The paper then discusses how the Confucian concept of harmony fulfills the concept of strategic intent and how harmony can contribute to the development of a successful and ethical organization. The paper concludes with a brief discussion of the applicability of Confucian ethics to the financial services industry.

Keywords: Strategic Intent, business ethics, Harmony, Confucianism

1 Introduction

The collapse of the US financial services industry has sent shock waves throughout the global economy. The world economy is in recession. Firms are retrenching, workers laid off and the length and depth of the slowdown unknown. While this is happening, Wall Street bankers have rewarded themselves with over \$ 18 billion of bonuses (Dash and Bajaj, 2009). While bonus payments may not be illegal, they defy logic. The year 2008 was anything but a good year in American financial services. The industry is in ruins. US banks have already received billions in aid and considerably more may be needed. Storied firms have ceased to exist and others forced into mergers. Yet, bankers have found the resources to reward themselves for “a job well done.”

This paper will argue that the Confucian concept of harmony can contribute to both firm success and moral behavior. Confucian harmony does not mean uniformity and monotony. Difference and disagreement are normal aspects of life. It welcomes diversity and difference. What harmony requires is the management of difference and diversity for mutual success. Harmony seeks to build successful

institutions and individuals. When applied to business activities harmony can contribute to strong industries, successful companies and moral individuals. In short, good people make for good business.

2 Strategic Intent

Over fifty years ago Drucker defined the purpose of the firm as customer focused (1954). In his view, the customer defined value through the purchase of a business's products and services. The firm's mission was to provide the products customers need by fulfilling current needs and anticipating future ones. According to Drucker the fundamental business requirements are knowledge and understanding. To successfully understand the business situation, a firm needs knowledge of its environment, its capabilities and potential disruptions to the match between the two (1994). Furthermore, success is dependent upon innovation. Innovation is based upon knowledge and understanding and allows the firm to remain competitive. Innovation is not synonymous with change although innovation often means change. Innovation is the ability to develop commercially a new organizational method or invention, where commercialization reflects market acceptance of what is new (1985). For Drucker, strategic intent is a "theory of the firm" which realizes the alignment of firm capabilities with customer requirements.

Hamel and Prahalad focus on the concepts of strategic intent and core competencies. Strategic intent is an imprecisely defined future organizational condition.

"Companies that have risen in global leadership...began with ambitions that were out of proportion to their resources. But they created an obsession with winning at all levels of the organization and that sustained that obsession over the 10-to-20 year quest for global leadership. We term this obsession 'strategic intent.'" (1989, p. 64).

"The dream that energizes a company... Strategic intent is our term for such an animating dream... As the distilled essence of a firm's strategic architecture, strategic intent also implies a particular point of view about the long-term market or competitive position that the firm hopes to build over the coming decade or so. Hence it conveys a sense of direction...It holds out to employees the promise of exploring new competitive territory. Hence, it conveys a sense of discovery. Strategic intent has an emotional edge to it; it is a goal that employees perceive as inherently worthwhile. Hence it implies a sense of destiny" (1994, p. 129).

Strategic intent provides direction, focus and motivation for the entire organization. In addition, it plays a role as an organizing concept in the firm's architectural and organizational development.

If strategic intent is the organizational and motivational energy in the organization, core competencies are the foundation. While immediate success is the result of market acceptance of current product or service offerings, future success depends upon the ability to anticipate market possibilities, customer needs and the skills required to develop the organizational capabilities necessary to develop future successful products.

“The diversified corporation is a large tree. The trunk and major limbs are core products, the smaller branches are business units, the leaves, flowers and fruit are the end products. The root system that provides nourishment, sustenance, and stability is the core competence...”

Core competencies are the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technology...

If core competence is about harmonizing streams of technology, it is also about the organization of work and the delivery of value” (1990, p. 82).

The successful firm, therefore, is organized hierarchically and harmoniously from competencies through end products. Competencies provide the basics that allow the firm to execute its strategic intent because intent will never be realized unless the organization has the skills and capability to achieve its desired destiny.

In addition, Hamel and Prahalad emphasize not only the acquisition and development of core competencies but also that successful companies must use external relationships to acquire or develop further critical core competencies. (1990, p. 80) They recommend looking externally for partners who can help improve the business. Poorly managed firms look to external relationships as sources of inputs or cost reduction. While this is important, well-managed firms also look for partnerships that can help in the maintenance and acquisition of critical knowledge. The well-managed firm is an inward and outward looking organization where the customer is the justification for all internal and external relationships.

3 Confucian Harmony and Ethics

Confucianism is one the world's leading philosophies and ethical systems. At the risk of over simplification, it may be summarized with one word: knowledge. *The Great Learning*, for example, requires the moral individual to "investigate things" and to understand "what are the root and the branch." All Confucian understanding is based upon knowledge. Individuals cannot become moral, self-improvement is impossible, and relationships unworkable without knowledge. Fundamental to Confucianism is virtue. Philip Ivanhoe describes Confucianism as character consequentialism. "Character consequentialism recognizes that the passion of certain virtues *usually* leads to the realization of certain good consequences above and beyond the possession of the virtue itself" (2001, p. 56, italics in the original). Usually is an important qualifier. Virtuous behavior often leads to good outcomes but even if that is not the case, it is good to be good. Bad behavior cannot lead to good results.

Confucian ethics applies several important principles – individual development and responsibility, relationships, and proper behavior emphasizing moral virtue – all leading to virtuous individuals, sound relationships and ultimately harmony. The primary focus of Confucian ethics is the moral development of the individual. It is the moral responsibility of the individual to develop a virtuous character through obtaining moral knowledge and self-improvement, which can be obtained only through study and practice. Behavior is based upon virtues such as benevolence, righteousness, respect, trust and the golden rule. However, while individuals must be moral, behavior is always relational. Relationships are based upon names, such as the well-known Confucian relationships of father/son, minister/subject/friend/friend.

Names denote how people should behave toward others in the relationship and are based upon moral and technical knowledge, where technical knowledge is knowledge required to perform the particular name correctly. While technical knowledge is important, moral knowledge must guide it application. Moral people must fulfill their name correctly. To fulfill a name correctly one must live the virtues and obey the golden rule. Moral behavior must recognize that relationships are reciprocal and are often based upon mutual dependency, where the proper fulfillment of all names in the relationship depends upon each name being executed correctly. Benevolence demands that individuals in reciprocal relationships must act in ways that are supportive of the relationship and leave members of the relationships better off or, at least, not worse off. The golden rule is fundamental to Confucianism. "Tsze-kung asked, saying 'Is there one word which might serve as a rule of practice for all one's life?' The Master said. 'Is not RECIPROCITY (sic) such a word? What you do not want done to yourself, do not do to others'" (Analects, XV, xxiii, p. 301). The application of the Confucian virtues and the golden rule directs individuals to behave in relationships for the

mutual benefit of all members of a relationship and not just the individual so that success is both collective and reciprocal.

The emphasis on names and relationships has been labeled the fiduciary society (Lu, 2001). In this view “a fiduciary community is grounded on “shareable values’. These values are ‘mutual respect, the division of labor, pluralism, natural hierarchy and peaceful coexistence” (Lu, pp. 85-86). Trust (Xin) is the cardinal virtue which supports fiduciary relationships because without trust reciprocal relationships cannot function for mutual benefit.

(W)e can imagine that a fiduciary or xin community would be one in which human relationships would be established on mutual trust (xin ren) and creditable prestige (xin yu) which derives solely from the virtues of carrying the burdens of one’s commitment and maintaining one’s creditability (xin yong), setting great store by righteous commitment (xin yi), speaking one’s heart-mind and truthfulness and faithfulness (xin shi), and believability (ke xin) and reliability or dependability (xin lai)... To describe this scenario in Meng Zi’s (Mencius’) terms, the manifestation of nobility, of which xin is one, is highly valued and completely dignified (Lu, pp. 89-90).

While all members of a fiduciary society are required to behave morally, the shared values of natural hierarchy and division of labor demand, even more, that leaders conduct themselves ethically. In hierarchical relationships characterized by a division of labor, power and responsibility flow upward. In this situation the higher a person is in the organization, the more control and influence he has and the more his behavior impacts those below. Consequently, the need for trust becomes more important, since those in the lower relationships have less control over those above.

In this sense the rectification of names becomes an important Confucian concept. As Confucius observed, if a relationship is not performing properly it is because names are not being fulfilled correctly. What is incorrect must be rectified and made correct. When names are performed properly relationships operate effectively. When relationships are correct they will benefit all parties in the relationship. Thus Confucians understand that to achieve good outcomes relationships should be mutually beneficial to those in the relationship. This leads Confucians to be skeptical of individual benefit. While it is permissible for an individual to benefit this must not be at the expense of others in the relationship.

“Your majesty... (w)hat is the point of mentioning the word “profit”? All that matters is that there be benevolence and rightness. If your majesty says, ‘How can I profit my state?’ and the gentlemen and counselors say, ‘How can I profit my person?’ then those above and those below will be trying to

profit at the expense of one another and the state will be imperiled” (Lau, 1970, p. 49).

“Now if you should practice benevolence in the government of your state, then those in the empire who seek office would wish to find a place at your court, all tillers of land to till land in outlying parts of your realm, all merchants to enjoy the refuge of your market-place, all travelers to go by way of your roads and all those who hate their rulers to lay their complaints before you. This being so, who can stop you from becoming a true king” (Lau, 1970, p. 58).

The above quotations from *Mencius*, the early Confucian classic, illustrate some important aspects of Confucian ethics. Individual behavior is based upon the cardinal virtues of benevolence and righteousness. Relationships must be advantageous to all members. Senior leaders must play a particularly important role in the creation of a moral society by demonstrating good example. Confucianism is a leadership ethic which views hierarchy as the natural order. Therefore, if relationships and society are to be successful it is crucial for leaders to be good people. Senior leaders are powerful and power must be exercised in the best interest of themselves and those for whom they are responsible. Otherwise relationships and organization will not be mutually advantageous and good results are much less likely.

This brings us to a discussion of Confucian harmony. In the metaphysical sense harmony is the alignment of heaven, earth and man into the “mandate of heaven.” In this condition, all relationships are being fulfilled correctly and everything is in its proper balance. It is the condition human beings should strive to achieve. This illustrates the essence of harmony. It is about organizing and bringing different parts into cooperative relationships. Harmony is not only about similarity; it welcomes difference and diversity, so long as the different and diverse seek cooperation for mutual benefit (Li, p. 583).

In the early Confucian Classics harmony is illustrated by music. Many different instruments playing together are needed to make music. Each instrument makes a different sound and must be played by a skilled musician. In music, difference can be combined to make harmony so long as the musicians understand musical principles and are willing to apply them in a cooperative effort for the mutual benefit of musicians and audience. If we continue this analogy, one musician and instrument can make harmony by playing different musical notes correctly and several musicians and instruments can achieve a similar objective by acting similarly. In life as in music individuals should strive to behave correctly and seek harmonious relationships for mutual benefit.

However, life is not so simple that in all situations individuals understand and accept an objective and are willing to work together for its achievement. Conflict is a part of human life. Confucians understand this also. Conflict exists and must

be managed successfully. Often Confucianism is presented as favoring harmony above all else. This is a stereotypical interpretation. Although harmony is an important Confucian value, Confucian ethics recognizes disagreement and debate and provides methods of conflict management (Leung et al., 2002). Reasonable people often disagree about many things. What is important is an individual's approach to conflict and disagreement. If disagreement and debate is approached in the spirit of trust, cooperation and mutual benefit, character traits fundamental to Confucianism, then self-improvement, relationship development and mutual benefit can emerge in a "dialectal" process of interaction. Harmony, while a significant objective in human relations, must not be achieved by sacrificing benevolence and righteousness, two cardinal Confucian virtues. In the Mencius discussion mentioned above Mencius clearly, though politely and respectfully, informed the king of the primacy of benevolence and righteousness. Nothing, not even harmony, supersedes them.

'A man who mutilates benevolence is a mutilator, while one who cripples rightness is a crippler. He who is both a mutilator and a crippler is an 'outcast.' I have indeed heard of the punishment of the outcast 'Tchou', but I have not heard of regicide" (I. B: 9).

For Mencius, the cardinal virtues of benevolence and rightness (righteousness) are of supreme importance and cannot be superseded by harmony. As the above quotation suggests the removal of an immoral leader who violates these virtues is permitted and, perhaps, required. Bad leadership should not be rewarded.

4 The Applicability of Confucian Ethics to Business

The application of Confucian ethics has important implications for successful business management. If we approach management from the perspective of human relationships, it is useful to view a business as a complex series of specific relationships that must be executed properly if a firm is to be successful. These relationships progress from ones between workers, to relationships between firms, to those between firms and customers. For relationships to be executed well they must be among moral and competent individuals with the knowledge and good character, names, if you will, to fulfill them correctly. For success, whether in personal or business life, is ultimately the result of competent people applying knowledge. Managers in various responsible positions must possess knowledge: knowledge of the customer; knowledge of the skills, competencies and innovations required to fulfill customers' met and unmet needs; and the ability to apply appropriate knowledge effectively, which is knowledge separate from the rest. Furthermore, if we view these relationships as fiduciary, we can expect good outcomes most often due to character consequentialism.

We have argued that strategic intent as harmony will enable all members of a firm's relationships to focus on knowledge development and application and to work toward cooperative and mutually successful associations which will enable a firm to strive for successful long-term customer relationships. There remain two additional issues in our discussion of harmony and strategic intent.

Some Confucians dismiss business activities as fundamentally immoral because of the need for profit and competition. To traditional Confucians, these pursuits are lowly for the person of character and they create disharmony. If the word "profit" is understood in the narrow sense of the pursuit of individual gain then, yes, it is often destructive to smooth functioning relationships and disharmonious. If we view profit more broadly as wealth creation, then business pursuits and success become not only acceptable but necessary. Mencius recognized the need for agricultural production, that is, wealth creation. Indeed, in the earlier times, the emperor needed to have a basic understanding of agriculture and played a significant role in agricultural rituals. The Neo-Confucians understood the need for commerce and made specific provision for it in their approach to Confucianism (Wood, 1995). Furthermore, profit is necessary to business success. Profit is the result of wealth creation, needed to fulfill relationships with creditors and shareholders and necessary to fund future success. Without profit, a business could not fulfill its social and economic responsibilities.

Similarly, competition is viewed by many Confucians as a manifestation of disharmony. It can appear that way, especially at times of great industrial and commercial transformation. However, we can understand the relationship between competition and harmony by applying the above discussions using Michael Porter's view of industry development. "The presence of the right competitors can yield a variety of strategic benefits that fall into four categories: increasing competitive advantage, improving current industry structure, aiding market development, and deterring entry" (1985, p. 202). Competition offers customers choice and demands that firms work diligently to develop the business and offer superior products and services. If firms compete well the result will be organization and industry improvement and development and satisfied customers.

In Confucian terms, competition is a relationship of constant change among firms and customers. These relationships can be viewed not only as disagreement but also as a debate and dialogue among all members in the relationship. Competitive relationships must be approached without deceit or the intent of eliminating competition, because competition is a means to knowledge and improvement. Competition is a form of dialogue where participants can reconcile differences that can result in mutual success and development. In this sense competition represents a continuous process of development towards harmony and reconciliation.

This opens the related issue of the moral consideration of competitors. One must approach these relationships morally by applying the cardinal virtues of benevolence and righteousness, along with the associated virtues of respect and

honesty. Competition is healthy. Firms must embrace it, and approach it correctly if they wish improvement and success. One should not view competitors as enemies but as collaborators seeking knowledge, improvement and mutually beneficial relationships. If character consequentialism is implemented all members of the many business relationships inside and outside of firms will have the best opportunity for success.

The pursuit of harmony is a quest for learning, understanding, and fulfillment. It satisfies the requirement of strategic intent because it is long-term, motivational and worthwhile. To seek harmony is to explore and investigate the knowledge needed for both individual and collective success. It strives to develop beneficial human relations. Above all it requires positive human development.

Conclusion

We began this paper with a brief review of the wreckage of the global financial markets precipitated by the collapse of the U.S. financial services industry. This was brought about by the selfish and destructive behavior of the mortgage brokerage and investment banking business. Lawrence McDonald (2009) describes the selfish, feeding frenzy that was the mortgage origination business and the marketing of the various mortgage backed securities sold by investment banks such as Lehman Brothers (p. 182 ff). Whatever the innovative potential of structured investment vehicles, collateralized debt obligations and so forth, when based upon unsound mortgage origination practices, deceit and unfettered greed, collapse was the likely outcome. Individual behavior was predicated upon personal gain and not mutually beneficial relationships. This is amply demonstrated by the behavior toward mortgage customers who were sold deceptive products and the marketing of toxic securities to unsuspecting investors. Strategic intent became short term gain rather than a focus on the long term strategy, core competencies, outstanding products, and firm success. In short, disharmony was the watchword of the financial services industry. In the end, not only did the financial industry collapse but the fall-out contributed to a much wider global economic crisis.

The application of Confucian ethics may not have prevented the collapse of the U.S. financial services industry but following its precepts could have mitigated the severity of the crisis. The foundation of Confucian ethics is character consequentialism, the virtuous person who performs their name within mutually beneficial relationships. If we apply this concept to business organizations, we would conceive of a firm as a series of fiduciary relationships beginning with supplier relationships through organizational relationships culminating in the customer relationship. This conception of a firm would focus management on the development of the knowledge, skills, behaviors and relationships crucial for long term success. By focusing on harmony, relationships will be mutually beneficial and the behavior of each individual will contribute to the long-term success of individuals and firms as well as industry development.

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