Confucius on Risk Governance



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Confucius

- 551-479 BC
- End of Springs and Autumns period, beginning of Warring States
- Replacement of nobility by king's appointments



Analects – Lun Yu

- Collected by students by about 400BC
- Discontinuous collection of brief statements, short dialogues and anecdotes
- Attacked, censored, reinterpreted, but still going strong

Analects

- Censored by late Imperial dynasties
  - Focus on submission to authority
- Confucius (*Kong zi*) teaches:
  - Social justice
  - Political dissent
  - Moral obligation to criticise abuse of power

A Fractal Society

- Same pattern of relationships at all levels:
- Turn up magnification from imperium to family
  - Same pattern of relationship at all levels
  - Companies fit into this spectrum

Translation

- Very small sample of highlights
- Translate the gist into the company realm
- Keep the spirit, not the letter
- Confucian gentleman (*jingxi*)= senior manager/director
- Paragraph references given

Isn't it a joy to acquire knowledge and put it to good use

Confucius in Basel

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Risk Management Principles

The tone is set at the top:

- The board of directors and senior management are responsible for promoting high ethical and integrity standards
- Let your evinced desires be for what is good, and the people will be good. The relation between superiors and inferiors, is like that between the wind and the grass. The grass must bend, when the wind blows across it.

12:19

The CEO

To run a company a CEO must

dispatch business with dignity and good faith,

be thrifty and respect all people,

and allocate work fairly

In running a company the CEO should influence the staff with virtue, and they will engage with the company

If you run the company using harsh punishments for breaches of rules and regulations, the staff will follow the letter of the law for fear of punishment.

If the senior management team inspires the staff by transparently correct behaviour then people will want to behave well.

How do you get respect of the employees?

Promote the honest managers.

A CEO is fortunate if whenever he makes a mistake, there is somebody to notice it and tell him.

A CEO is principled,

not rigid

How do you best serve a CEO?

Tell him the truth, even if it offends him!

Can you report to a CEO with a rogue as your co-report?

Before he got the position he feared not getting it.

Now he's got the position he's afraid he'll lose it.

When he fears to lose it he's capable of anything.

17:15

Board & Independent Directors

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A good chairman seeks harmony but not conformity

A bad chairman seeks conformity, but not harmony

Not to act when justice demands,

that is cowardice.

Guide the executive

Forgive small mistakes

Promote the talented

Is the CEO happiest if no one contradicts him?

If he is always right, that's OK

If he can make a mistake, it is disastrous

13:15

Riches and board positions are what everyone craves.

But if you have to go against your principles to get them, then stop.

Compliance

Don’t look at anything improper

Don’t listen to anything improper

Don’t say anything improper

Don’t do anything improper

When everyone dislikes a manager, someone should investigate

When everyone likes a manager, someone should investigate

15:28

Major principles can't be broken

Minor principles may allow compromise

Rectification of names

Let the director direct

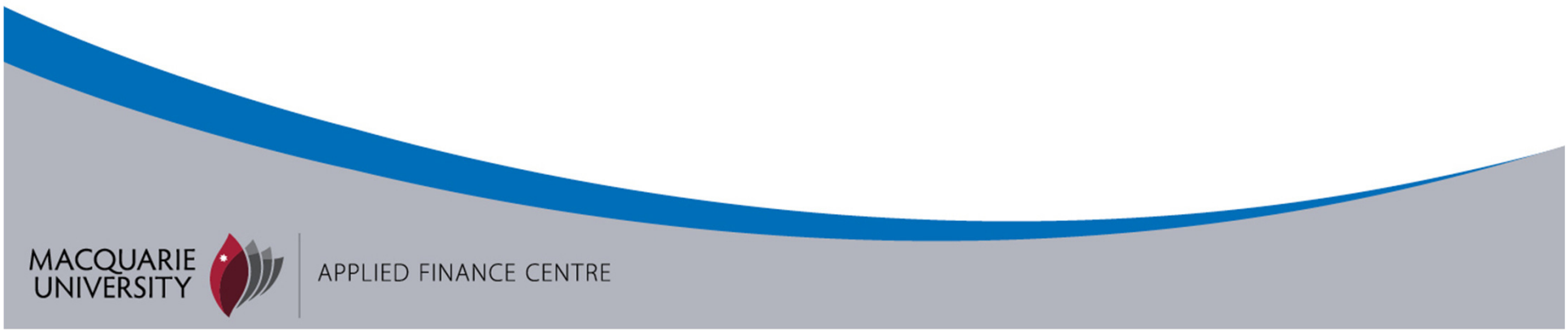
Let the executive execute

Let the manager manage

Let the auditor listen

In assigning roles, the director leaves nothing to chance

12:11
13:3


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Problems with Confucius

- Some sayings aren't appropriate today, or are capable of misinterpretation
- *Among my people a father covers up for his son, and a son covers up for his father. There is integrity in what they do.*

Interpretation

- Beware of the subtleties
  - *Gentleman* is a moral title – it must be earned
- Much difference in interpretation
  - Strong (mis)emphasis on authoritarian streak

Later history

- Ruists (Confucianists) vs Legalists
  - Principles-based or black-letter law
- Late Song neo-Confucianists
  - Integrate Daoism, Ruism, Buddhism
  - The Way, 8-Fold way
- Ming, Qing (and later) emphasis on obedience to authority

Corporate governance now

- Still strong authoritarian streak
  - Strong disinclination to question authority
- Ruists dislike black-letter rules
  - Govern by example
  - Personal attributes count more than legal niceties
  - Laws don't apply equally to all
  - Best to have no laws

Corporate governance (ii)

- Fractal nature of loyalties
  - Conflicts of interest are natural
  - Strongest Legalist argument against Ruism
- Court system still has Ruist elements
  - Have a set of guiding principles interpreted by the "Confucian gentleman" who is ruling and interpreting the principles according to the facts of the case and the status and character of the people involved.
  - Rule-by-law

Corporate governance (iii)

- Role of independent directors
  - Close to jingxi
  - Common conception is for complete independence
    - More so than in West
    - Backlash against past misbehaviour?
    - Legalist viewpoint winning?

Other difficulties

- How do we handle loss of face?
- Does this require the CEOs and Board showing that there is no loss of face in rigorous but valid discussions on risk?

Questions

References

- Map on Slide 2:
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