



# A HISTORY OF MANAGEMENT THOUGHT

MORGEN WITZEL

ROUTLEDGE



# A History of Management Thought

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For the past three thousand years people have been thinking about the problems of management. This book shows how thinking about management has evolved and changed. It shows how changing social, political and technological forces have challenged people to think about management in new ways and how management thinkers have responded. Sometimes their responses missed the mark and occasionally, great ideas about management failed to be picked up and were lost along the way. Sometimes, truly original and creative, even world-changing ideas appeared.

Following key currents in management thought from the origins of civilization to the present day, the book begins in the ancient world, when people were wrestling with the problems of organization and leadership. It continues through the Middle Ages, East and West, as people pondered on how to manage risk and think strategically, and on the role of business in society. It shows how the Industrial Revolution led to the emergence of scientific management, and how political and social events of the twentieth century shaped management thinking right up to the present day.

From the pyramids to Facebook, from military strategy to managing for sustainability, *A History of Management Thought* tells the fascinating story of how management thinking has changed, shifted, evolved and developed down through the centuries. Students taking classes in the history of management thought will find this text to be the perfect accompaniment to their studies and will be captivated by a read for anyone else.

**Morgen Witzel** is a Fellow of the Centre for Leadership Studies, University of Exeter, UK. A writer, lecturer and consultant on business and management, especially on the history of management, he is the author of hundreds of articles for the academic and popular press and has written eighteen books including: *Doing Business in China*; *Management: The Basics*; and *Management History*, all available from Routledge.

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My views on business and management were formed while working, first as a research officer and then on contract, at London Business School. While there, I learnt to appreciate the power of management education – and also, some of its failings. My subsequent years of lecturing on management history and other subjects at the University of Exeter Business School confirmed my belief in the utter necessity of management education, while at the same time enhancing my understanding of the weaknesses of the current system. And along the way, I became even more convinced that the application of lessons from history can solve some of those weaknesses.

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# 1 Introduction

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A sense of the past ... is essential to anyone who is trying to understand the here-and-now industrial organisation. What is happening now is part of a continuing development.

(Tom Burn

Any history of management thought needs perforce to begin by defining what is meant by 'management thought', and then explain what it is about the history of management thought that makes it important and worthy of study. There are two ways of defining 'management thought': we can take it to mean coherent theories or systems of management, or we can broaden the scope of the term and refer more generally to 'thinking about management', ideas about the meaning, purpose, function and tasks of management which are important and relevant but do not necessarily amount to a coherent overall theory.

The problem, though, is defining where the boundary lies. The year 2011 marks the 100th anniversary of the publication of arguably the most influential work of management thinking of a time, Frederick Winslow Taylor's *The Principles of Scientific Management*. Scientific management was one of the first major systems of thinking about management to be developed, though it must be pointed out that it emerged at a time which was very rich in thinking about management generally. Taylor's contemporaries included people such as Harrington Emerson, Henri Fayol, Lyndall Urwick and others who developed their own concepts of management. As we shall see later in this book, scientific management was the concept that proved to be most durable.

If we take the first definition of 'management thought' given above, then our study should commence with scientific management a century ago and move forward in time from there. But how and why did scientific management emerge? To answer that question, we need to go back to the late nineteenth century and the first calls for improvement in management methods. And what led to those calls for improvement and change? To answer *that* question, we find ourselves back in the heart of the Industrial Revolution. Should we start with Charles Babbage, who defined the need for knowledge in management and called for a more scientific and rigorous approach to management? Or do we go back further to Robert Owen, who developed ideas on how to manage people effectively and humanely? Or Adam Smith, who redefined the division of labour; or the French physiocrats who also wrote on the division of labour and developed the first ideas on entrepreneurship? Or back to ancient China, where at least one key physiocratic idea, the notion of *laissez-faire*, has its roots?

Before we know it, we are on a journey back in time, far earlier than the emergence of scientific management. Early twentieth-century writers on management, including some exponents of scientific management, knew this. 'The art of administration is as old as the human race' wrote Edward D. Jones in 1912.<sup>1</sup> Thomas North Whitehead thought that 'structure arises as soon as people begin to do something together'.<sup>2</sup> Harrington Emerson, Lyndall Urwick and James Mooney among others believed that the roots of management and administration could be traced back to the beginning of civilization. Likewise, modern theories and systems of management thought have their roots in much older 'thinking about management'. The two cannot be separated, not without risk of creating an artificial divide. The fact is that pretty much since the beginning of civilization, people have been writing and

thinking about problems in management and how to solve them. The duties and functions of manager, the principles of organization, markets and prices, the management of people, the importance of knowledge, strategic thinking, the management of money and finance, inter-national trade, leadership: all of these problems and many more were pondered by people around the world as far back in time. Among them were Confucius, Plato, Ibn Khaldun, Thomas Aquinas, Machiavelli, Adam Smith, Samuel Taylor Coleridge, Florence Nightingale and Leo Tolstoy, to name but a few.

When we go back to these earlier writers and thinkers, however, we are looking at something very different from Taylor's *The Principles of Scientific Management* or the many other books on management and aspects of management that began to appear from the 1890s onward. Most earlier authors did not set out to write works on management (and we should remember that the words 'management' and 'manager' were not coined until quite late, first appearing in English in the late sixteenth century, gradually replacing older words such as 'administration' and 'stewardship').

Some people, such as the medieval scholar and lawyer Walter of Henley, did deliberately sit down to write handbooks or manuals which would help guide administrators and managers; but most offered their comments in a much broader context. Often their ideas on management have to be disembedded from a broad range of ideas on many subjects. An example is the Italian friar San Bernardino of Siena whose sermons cover subjects such as economics, theology, ethics, social mores and codes of behaviour, as well as a highly original definition of the qualities of a manager seemingly at random. The often quite profound comments by Confucius and Thomas Aquinas on the role of business in society represent tiny portions of much larger bodies of work. As Liana Farber points out in her painstaking collection and analysis of medieval European writings on trade, scholars often have to read through many lengthy discussions of almost every topic under the sun before finding a few paragraphs which offer ideas on business and management.<sup>3</sup> Nonetheless, those few paragraphs are often extremely significant. Through them we can trace back concepts such as the division of labour or the metaphor of organizations as biological organisms, or theories about the relationship between price and value, or the need for reporting and control, or the role and function of the leader – to take just a few examples – for hundreds of years, sometimes thousands of years.

## **Why a History of Management Thought?**

The first and most commonly used justification for the study of the history of management thought is that it provides context. We cannot fully understand the present without knowing something about the past. 'The objective is to place management thought in the context of its cultural environment and thereby to understand not only what management thought was and is, but also to explain why it developed as it did', declared the management historian Daniel Wren.<sup>4</sup> He refers to 'the past as prologue', the foundation on which the present is built.

The past does provide context, most certainly, and it can be used to illustrate present themes and ideas; elsewhere, I have argued that the past can be used as a mirror or a lens, to illuminate and examine the present more effectively.<sup>5</sup> 'A sense of the past ... is essential to anyone who is trying to understand the here-and-now of industrial organisation', wrote Tom Burns in 1963. 'What is happening now is part of a continuing development.'<sup>6</sup>

But the past also provides influences. Ideas about management do not – by and large – spring fully formed from the heads of their creators, like Athena from the head of Zeus. As Daniel Wren suggests, they evolve. Each new generation of theorists applies new ideas to the existing body of theory. Very often, these new ideas are conditioned, or at least influenced, by the world in which the thinkers live and work. Much has been written about the persistence of Confucian intellectual current in East Asia



China in particular. Chinese management thought remains under the influence of the ideas of Confucius and other early philosophers, notably Laozi (Lao Tzu) and Han Fei, to this day. Japanese business leaders continued to be influenced by Sunzi, early Buddhist writers and the Japanese swordfighter Miyamoto Musashi into the twentieth century. Nor are we in the West beyond the influence of the past. The philosopher Alfred North Whitehead – whose son became a notable management thinker in his own right in the 1930s – once remarked that all of subsequent European thought ‘consists of a series of footnotes to Plato’, so complete is the latter’s domination of our systems of thought and education.<sup>7</sup> Several of the people mentioned above – John of Salisbury, Aquinas, Machiavelli – were directly and heavily influenced by Plato. The Prussian strategy writer Karl von Clausewitz in turn was influenced by Machiavelli, and Clausewitz went on to influence generations of military and business strategists and managers. One of his followers, Field-Marshal Helmuth von Moltke, the victor of the Franco-Prussian War of 1871, was a strong influence on American management thinkers of the late nineteenth and early twentieth century, and Pierre de C. Pont’s multidivisional form (M-form) organization betrays the influence of military organization. Thus there is an intellectual chain stretching between Plato and Alfred Chandler, the later twentieth-century expositor of the M-form. These chains of influence are complex and not always visible; they do not make them any less important.

The past also reminds us of the importance of continuity. Too often in the modern world, we fall victim to the belief that the past is somehow less than relevant, that the pace of technological advances, globalization and so forth mean that the world today is so different from the world of the past that we have little to learn from the latter. ‘The past is a foreign country’, wrote L.P. Hartley in his novel *The Go-Between*, ‘they do things differently there’. That is both true and at the same time not true. Human society, culture, perceptions have all changed and evolved. The world is not the same as it was in 500 BC, or AD 1500, or even AD 1900. Many, many things have changed. Yet some things remain the same, and sometimes it can be helpful to isolate those things that have *not* changed, and try to understand why. One of the paradoxes of management is the need to focus on both continuity and change, simultaneously. To neglect change in favour of continuity risks falling under the dead hand of tradition and stagnation; but focusing only on change and dismissing continuity poses the equal risk of a continuous and ultimately destructive reinvention of the wheel.

And when we stop and consider them, the continuities almost reach out and slap us in the face. Here is how Violina Rindova and William Starbuck conclude their study of organization and control in ancient China:

it seems that the similarities between the ancient and the contemporary are at least as great as the differences. The differences seem to fit a model that says people from different times have to restate knowledge anew, in their own language and citing current examples. The similarities suggest that modern people can understand and appreciate the insights of their ancestors. The ancient theories are as complex as modern ones and supported by reasoning that we can appreciate even when it differs quite bit from our own.<sup>8</sup>

‘Management thinkers are very good at reconceptualizing old ideas, giving them a new twist and packaging them for an audience that wasn’t exposed to the original idea’, commented Michael M. and Julian Birkinshaw in *Giant Steps in Management*.<sup>9</sup> They likened this phenomenon to the propensity for Hollywood film directors to remake classic films with younger actors or contemporary settings. This would be forgivable if the intention were to improve on the original. All too often, one suspects, it is evidence of a paucity of ideas among contemporary thinkers. Understanding the continuities in management thought, the ideas that have always been and remain forceful and

important, can help us to distinguish genuinely creative ideas from glossy but ultimately valueless shams.

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## Challenge and Response

There is to my mind a further justification for a history of management thought. It can help us understand why and how new theories and ideas about management emerge. Again the point must be made: management theories do not emerge from nowhere. New ideas about management emerge because new ideas about management are needed. Challenges in the business environment provoke response from thinkers and practitioners. Here is how economic historian Sidney Pollard describes the managerial response to the Industrial Revolution:

The responses to the managerial challenges ... were immensely varied. Not all were equally successful, and some were undoubtedly responsible for the failures of that period as well as its achievements ... The pragmatic discovery of new methods was no doubt adequate, but management appears everywhere to have adapted itself merely to the needs of technological discipline or financial control.<sup>10</sup>

In other words, there was no attempt to go beyond what was needed at the moment. This is true not just of the Industrial Revolution, but of all time. In the ancient world, people evolved techniques for controlling organizations so as to carry out the tasks necessary for civilization building. In the Middle Ages business people adopted new accounting techniques to allow them better financial control in times of high risk, while the monastic orders created new forms of organization which allowed for the governance of very large and widely dispersed organizations. Scientific management emerged as a response to the need for better management of America's newly emerging large corporations. Management science in its turn emerged at least in part as a response to the intellectual and political climate of the Cold War. Post-war Japan, needing to develop world-class industries capable of competing with the West, evolved management methods that enabled it to do so, provoking a reaction from a new generation of Western management thinkers, and so on.

The entire history of management thought is thus a history of challenge and response. The challenges come nearly always from the environment: from new technologies sometimes, but more often from shifting political and social forces. Nor should this be surprising. Another thing that the history of management thought teaches us is that management is a social activity. Businesses and other organizations are not closed systems. They interact constantly and continually with the society – or societies – in which they are located. How those organizations are managed is a direct reflection of the social forces which are brought to bear on the organization. The trend in recent decades towards more participative management and democratic workplaces reflects very strongly the 'end of history' and the prevailing world-view that democracy is the best and highest form of governance. Suppose that communism had triumphed at the end of the Cold War, and capitalism had collapsed. Would management theorists still be writing about participation and democracy? From what we know of the communist governments and their own ways of managing, it seems unlikely.

## Lost along the Way

This brings us to a final reason why the study of management history is important, namely the light it can shed on why some ideas and concepts in management survive and are widely adopted, while others disappear. In some cases the answer is obvious. In the 1890s the Polish mining engineer Karol

Adamiecki designed, entirely independently of the work of Taylor and his colleagues in America, a management system which he called the 'theory of harmonization'. His theory is startlingly similar to scientific management, even to the point of using charts called 'harmonograms' which are nearly identical to Gantt charts (a staple recording tool used by scientific managers, see [Chapter 5](#)). Harmonization was used with considerable success in a number of mines and steel mills in Tsarist Russia, where Adamiecki was employed. But after the 1917 revolution, the new leader of Russia, V. I. Lenin, preferred the American brand of scientific management. Adamiecki's ideas were consigned to the scrapheap of history. Similarly, Nazi autarky was responsible for the end of the revolutionary management systems developed at Carl Zeiss Jena in Germany and the Bat'a shoe company in Czechoslovakia. Both companies were put under state-guided, command-and-control management systems, and so thorough was the wreckage that it has taken modern historians many years to piece together the original management systems and how they worked.

In other cases, the reasons for the disappearance are harder to fathom. In the early twentieth century, three systems of management thought emerged almost simultaneously: Taylor's scientific management, Fayol's theory of general and industrial administration, and Emerson's philosophy of efficiency. The first became very popular in many countries including America, France, Russia and China, and went through a number of later iterations and evolutions. Some of its techniques such as time-and-motion study are still used by consultants today. Fayol's system was widely admired and much discussed in Europe but barely caused ripples in North America, and in the end even in his native France scientific management became the dominant philosophy. Still more surprising is the complete disappearance of Emerson's theories of efficiency, a holistic approach to management that was in many ways more sophisticated than scientific management (see [Chapter 5](#)). At one point Emerson's methods were in use in more industrial establishments in America than were Taylor's. But 'Emersonism' never took off, and in the 1970s Claude George allocated Emerson no more than a walk-on role in his history of management thought. Today, Emerson is rarely studied or discussed, even by management historians.

In the 1920s there was a flourishing school of management thought in Britain, with figures such as Seebohm Rowntree, Lyndall Urwick, John Lee and Oliver Sheldon commanding international respect and American luminaries such as Mary Parker Follett and Henry Metcalfe coming to Britain to meet and share ideas. By the 1950s, apart from the work of a few industrial sociologists such as Joan Woodward, this school had virtually died out. What happened to it? Earlier, in the late nineteenth century, George Cadbury and his son Edward had turned the chocolate maker Cadbury Bros. into the world's largest confectionery firm, using a unique system of participative labour management that brought worker commitment and innovation to new heights. 'At Cadbury, everybody thinks', said the consultant Herbert Casson. Why did not other firms step up and adopt Cadbury's methods? Why when Robert Owen pointed out to his fellow industrialists the undeniable fact that a worker who worked ten hours a day was more productive and delivered more value to his or her employer than one who worked fourteen, did the industrialists not respond at once by cutting hours? A few did, but most waited until the Factory Acts compelled them to do so. Why, when the Lyons company introduced the first business computer, the Lyons Electronic Office (LEO) in the 1950s and showed the savings and benefits that it could generate, did not management scholars produce coherent theories of how computer technology could impact on management? Again a few did: but most kept their powder dry and computers did not figure largely in management thinking until at least the 1980s.

Management thought evolves; and as in any other evolutionary process, there are casualties along the way. Not every new life form is able to flourish; not every new idea is recognized and taken up. There, however, the parallel with evolutionary theory must end. If we follow the Darwinian view of survival of the fittest, we would accept that the 'best' theories and ideas are the ones that survive.

while those that fall behind are in some way weak or flawed. This manifestly is not so. The long past of management thought is littered with the wreckage of good ideas that failed. What happens? For what criteria do we select those ideas that we will keep, and those that we will throw away? A study of the history of management thought can not only provide some clues as to how the process works, but might even aid better decision making and selection of ideas in the future.

## Structure of the Book

This book starts from the premise stated above, that ‘thinking about management’ has been going on in some form since the beginnings of civilization itself. From there, I have attempted to show how and why, management thought has evolved and developed. The approach is broadly chronological but with some thematic elements. The style is narrative: I have tried to follow Theodore Levitt’s dictum that ‘colorful and lightly documented affirmation works better than tortuously reasoned explanation’.<sup>11</sup>

The book begins with the idea of management as one of the elements of civilization, and shows what the early civilization builders, in the Middle East, Egypt, India, China, Greece and Rome thought about management. We move forward to the beginnings of the age of commercial expansion which began around the sixth to eighth centuries and is still going on today, returning again to the Middle East before turning to Western Europe. Here, ideas about business and management were often deeply embedded in broader ideas about society and how it worked; but in both the Islamic world and parts of medieval Europe, such as Italy and England, we begin to get glimpses of the study of management as management.

While the dominant administrative models in India and China evolved slowly, if at all, the Enlightenment in Europe overturned previous theories about the world and society. The spirit of inquiry which lay at the heart of the Enlightenment led to advances in science and technology which precipitated the Industrial Revolution, but also to advances in ideas about governance and management. Some thinkers and writers, and a few practising managers too, tried to apply the ideas of the Enlightenment directly to business and management. They did so with mixed success, but the spirit of inquiry persisted.

That same spirit emerged in force in the late nineteenth century when, as a result of the rapid and chaotic growth of many organizations, it became clear that a more systematic approach to management was needed. The result was an unprecedented flourishing of ideas, especially in America but also in many parts of Europe, and the spreading influences were felt in Japan, China, India and Latin America, at least. Scientific management rose to become the dominant model in America and France, but was challenged by the human relations school which felt that scientific management was too mechanistic and ignored the human element in organizations.

The tension between mechanistic and organic, human-centred models of management persisted after the Second World War with the parallel developments of management science and other approaches based on open systems and contingency theory. Meanwhile, ‘management’ as a discipline was beginning to fracture. Individual disciplines, notably personnel management, marketing and corporate finance, had sprung up semi-independently of general management theory and became gradually affiliated with the latter in terms of thinking and research. But as time passed more disciplines – strategy, leadership, knowledge management, to name but a few – emerged, each with its own body of theory and its own literature. There was a tension too between the academic specialists and the so-called ‘gurus’. Although some of these came from specialist backgrounds, they tended to take more general approaches and they tried to speak directly to managers and offer practical

management solutions rather than engage only in theory building.

And so we come to the present day, when general management thinking has declined in favour of highly specialized research, teaching and study. This is a difficult period for a general study such as this one to describe accurately, and I fear I have not tried to cover the whole picture; rather, I have stuck to my theme and focused on a few current developments in management thinking which take us back to the notion of how and why management theories are formed. My conclusion is that external environmental forces are still dominant, and that most thinking about management emerges from the same process of challenge and response: witness the scramble to come up with coherent theories about e-commerce in the aftermath of the rise of the Internet, or the current, somewhat lumbering response by management thinkers to pressures for sustainability.

The story ends there, somewhat abruptly, for of course the story of management thinking is not finished – though as I point out at the very end, formal and systematic management thinking will face an increasing challenge to its legitimacy if it can no longer respond to the challenges faced by management in practice. In the conclusion, I try to draw out lessons from the history of management thought and discuss what light it sheds on management today or even, however dimly, on management in the future.

This is, as I have said, a general survey, not an encyclopaedia. In trying to describe trends and processes I have inevitably left out some works and thinkers whom others will consider to be of major importance. Some readers may be shocked too by the fact that little-known figures such as Karol Adamiecki or Ibn Khaldun receive as much coverage or more than well-known writers and theorists such as Herbert Simon or Peter Drucker. But in this work, the importance of figures is not directly correlated with the number of paragraphs devoted to them. In some cases the little-known figures are given greater coverage precisely because they are little known, while much more detailed coverage of the significant figures is available elsewhere. Again, the purpose here is to describe the emergence of ideas, not create a canon of management thinkers.

Although I have made reference to developments in management practice, on the whole I have tried to concentrate on developments in thinking about management. Thus I have glossed over the development of mass production, for example, which some readers might think is rather perverse of me. But mass production to me is a matter of management practice, an evolution in production methods that developed out of new technologies and the increasing scale of business enterprises. Mass production was one of the issues that management thinking had to face as it tried to cope with the new conditions. How could mass production be managed efficiently? How could its products be marketed? How should these new large enterprises be financed? In terms of challenge and response, mass production was very much part of the challenge to management thinking, not the response.

Some of the disciplines within management have received short shift too. I have said very little about developments in accounting, largely because there are already some excellent histories of accounting thought. Corporate finance has received fairly limited coverage too, especially in the later period; as the long-standing editor of a corporate finance journal, I ought to feel embarrassed by this but I do not. I appear to have said almost nothing about the development of logistics and supply chain management, and equally have ignored modern theories on innovation and technology management. I could have included these, of course, and left out other examples; but I think that the conclusion of the book would be still be very much the same.

That is, I think, quite enough justification and rationale. It is time to begin the narrative, to tell the story of thinking about management as it has emerged over time. We shall begin at the beginning, when civilizations first began to emerge and when written historical records begin to show us the shape and pattern of these new social orders.

## 2 Early Management Thought

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A city comes into being because each of us is not self-sufficient but needs many things.

(Plat

The earliest literature of most civilizations can be divided into two categories. First, there are devotional works, such as the Indian *Rig Veda* (composed sometime before the tenth century BC), the Book of Genesis, which was probably composed over a period of time leading up to the fifth century BC, or the earliest Egyptian papyri and tomb inscriptions such as the so-called Pyramid Texts (the oldest of which date to about the twenty-fourth century BC). These works and others like them attempt to establish a relationship between the civilization and its environment. They answer questions such as, why are we here? Who made us? They provide a cosmological explanation of how the world came to be and how it is meant to work. In doing so, they give the civilization a dominant ideology, and through this ideology, a sense of purpose and identity.<sup>1</sup>

The second class of literature consists of what we might call ‘heroic tales’, myths and stories about leaders who, by force of character and personal example, rose to positions of power. Examples of the latter genre include the *Epic of Gilgamesh* from Sumeria, which in its earliest form dates back to at least 2000 BC; the *Iliad* and the *Odyssey* from Greece in the eighth century BC; the *Kojiki* (Record of Ancient Matters) from Japan around the same time, which tells of Jimmu, the legendary first emperor of Japan and his descendants; the *Mahabharata* from India, written possibly around the fifth century BC; early Chinese texts referring to Huangdi, the Yellow Emperor, the legendary first emperor of China and supposed inventor of Chinese traditional medicine; and some of the other early books of the Old Testament, particularly the Book of Exodus which tells the story of how Moses led the Israelites out of slavery in Egypt.<sup>2</sup>

Although these texts vary widely in terms of content and form, there are common themes that run through all of them. In each case, a strong leader – Gilgamesh, Moses, Odysseus, Arjuna, Huangdi – emerges and gives leadership to people at a time of crisis, bringing order out of apparent chaos. Some lead their people to freedom, others provide defence against foes, others lay down laws and give their societies form and structure. In many cases these written works are continuations of older oral traditions, which used example and precept to remind people of their duties and responsibilities to the society in which they lived.

Today, these works tell us what these early societies expected from their leaders. Again, there are common themes. Pretty much across the board, these ancient societies demanded that their leaders demonstrate virtues such as competence, courage, integrity, responsibility, fair and honest dealing with their own people, wisdom, justice and strength of character. Other texts made the duties and responsibilities of the leader even more clear. For example, a series of ancient Egyptian ‘instructional texts’ – including the *Maxims of Ptahhotep*, composed around 2400 BC, the *Instructions of Kagemni* (possibly composed as early as 2600 BC but likely of later date) and the later *Instructions of Amenemope* (probably written between 1300 and 1100 BC) – offer guidance as to how leaders should conduct themselves and maintain relationships with subordinates.<sup>3</sup> Scholars have noted a strong correlation between the *Instructions of Amenemope* and the Old Testament Book of Proverbs.

suggesting that the influence of these instructional texts spread beyond Egypt.<sup>4</sup>

These Egyptian texts are the earliest works in a long tradition of instructional texts for leaders and would-be leaders that extends forward to Roman collections of homilies, medieval Islamic and Christian 'mirrors for princes', Rochefoucauld's *Maxims* and Samuel Smiles's *Self-Help*.<sup>5</sup> It might seem fanciful to compare these ancient texts to modern works on leadership such as Goffee and Jones's *Why Should Anyone Be Led by You?* or Lynda Gratton's *Glow*, yet there are most definitely common themes: the emphasis on personal integrity and fairness, the need to build trust between leaders and followers, the need for wisdom.<sup>6</sup> If we no longer imbue our leaders with divine qualities as the Egyptians and Sumerians did, it seems that we still expect them to behave according to our expectations, and reserve the right to withdraw our loyalty from them if they do not. The implicit contract between leaders and followers was clearly understood, even at this early stage.

As civilizations grew and progressed, however, it became apparent that personal leadership was not sufficient. Leaders could not be everywhere, nor could they necessarily expect everyone to follow them through sheer force of character and personal example. Leaders appointed ministers, advisers and councillors to whom some of their duties were delegated. More, as societies became more complex, records needed to be kept, reports needed to be analysed and data needed to be collected in order to make certain that all members of society were paying their taxes, reporting for military service and so on. Societies needed order and structure if they were to last. In each society, as it progressed, a new generation of texts began to appear, each pondering how to create order and stability.

## Egypt and the Near East

As Karl Moore and David Lewis have described in their book *The Origins of Globalization*, there has survived a considerable stock of records of trade in and between Sumeria, Babylon, the Phoenician cities, Egypt and their neighbours from as early as 3000 BC.<sup>7</sup> Thanks to these records, we know a fair amount about how business was conducted and organized in these regions. These were not mere subsistence economies: long-distance and international trade is as old as civilization itself. The Phoenicians ranged across the Mediterranean and probably as far as the British Isles; the Egyptian pharaoh Nekko sent an expedition to try to circumnavigate Africa (it failed), and trade links between the Middle East, India and China were established at a very early date, at least as early as the tenth century BC. We also see a variety of economic structures beginning to emerge. In Egypt, for example, the economy was centrally planned and controlled by the pharaoh and his officials.<sup>8</sup> In the Phoenician city-states, the theocratic rulers of those cities also exercised a high degree of control and were directly involved in trade and finance. Moore and Lewis make the point that in the Phoenician cities the war leaders, heads of the civil administration, high priests of the temples and senior traders and bankers were very often the same people, fulfilling all four roles at once. In Babylon, by contrast, private merchants known as *tankārum* dominated economic activity and there was more separation of functions.<sup>9</sup>

Methods of economic governance varied accordingly. In Babylon, the rulers used legal codes and regulations to govern business behaviour. As Moore and Lewis comment:

Laws sometimes multiply when people are enjoying a measure of freedom and prosperity. Legal systems, with their conservative tendencies, are much in evidence when there is something to conserve. The archaeological testimony to the longevity of the Sumerian-Assyrian-Babylonian *tankārum* could be celebrated as an expanding economy's inherent bias towards delegation.

The most famous law code of this period is the Code of Hammurabi, composed around 1790 BC at the behest of Hammurabi, ruler of Babylon.<sup>11</sup> It consists of around 300 laws (in the most complete surviving version). The general purpose of the Code might be described as the preservation of order. There are laws prohibiting people from offering violence to each other, laws governing marriage, laws concerning the transfer of goods and chattels and many laws – at least 20 per cent of the total by my own estimate – governing the conduct of trade. The Code fixes wages to be paid to workers (perhaps not quite such definite evidence of entrepreneurial capitalism as Moore and Lewis suggest) and also sets out the conditions under which money can be lent and penalties for misuse of other people's money and possessions and for fraud.

The main point of the Code of Hammurabi and other similar law codes, at least so far as business was concerned, is to stabilize and rationalize relationships between business people and the rest of society. There is a clearly reflected concern that, if left unchecked, business people will sell shoddy goods or otherwise cheat their customers. One often-cited article from the Code of Hammurabi requires that if a builder builds a house which then collapses and kills the owner, the builder shall be put to death. Not all penalties are so draconian, but the principle remains: business people are an essential part of society, but they also need to be regulated, for their own good and the good of society. The enforcement of these codes of law was handled by an increasingly detailed and complex bureaucracy, as described for example in the Old Testament Book of Daniel (3:1–3).<sup>12</sup>

When it comes to bureaucracy, however, the Egyptians were the masters of the art. As noted, the pharaohs – who were recognized as divine beings – exercised tight central control. There were, so far as we know, no codes of laws as there were in Babylon and Assyria. 'While there were certainly legal rules (*hpw*)', writes the historian Aristide Théodoridès, 'their nature is uncertain'.<sup>13</sup> Théodoridès feels that it is 'inconceivable that nothing would have been legally codified in such a remarkably centralised country', and believes that there were law codes but none have survived. On the other hand, we know that the pharaohs ruled by decree, and it is possible that Egypt was governed by precedent, relying on knowledge of past decrees, rather than formal codes.

Ancient Egypt's bureaucratic system, on the other hand, was remarkably complex.<sup>14</sup> The bureaucracy emerged very early, and this emergence was probably driven to some extent by the need to manage very large building projects such as the pyramids and other royal monuments and tombs and to manage complex irrigation projects along the banks of the Nile. As noted, the pharaoh issued decrees and gave orders; the function of the bureaucracy was to execute his orders and enforce those decrees. Even the highest officials had no authority to issue decrees or make laws of their own. 'The delegation of executive power was strictly authoritarian', says Eva Martin-Pardey, 'from the king to the highest officials of the state and from them to their subordinates.'<sup>15</sup>

We can get a glimpse into the inner workings of the Egyptian bureaucracy from a remarkable text, the *Duties of the Vizier*, composed by a senior official during the second half of the reign of the Pharaoh Ahmose (c.1539–1514 BC), founder of the 18th Dynasty.<sup>16</sup> It seems likely that the text was written on the instructions of Ahhotep, Ahmose's mother, who administered the kingdom during her son's lengthy absences from court while leading military campaigns. It can be hypothesized that, in the absence of the powerful authority of the pharaoh, Ahhotep intended to remind high officials of their duties and to make it clear that they were not excused those duties just because the pharaoh was not physically present.

Much of the *Duties of the Vizier* focuses on the official known as the *t3ty*, which we translate today



as 'vizier'.<sup>17</sup> There is a lengthy summary of his duties and lists of the other officials over whom he has the power of appointment and who report to him. But there are also some fascinating insights into how power was exercised. While no lower official could refuse to receive a messenger from the vizier, at the same time the vizier is enjoined to be fair and equitable in his dealings with subordinates. For example, lower officials are not allowed to discipline poorly performing subordinates; they must refer their cases to the vizier, who would hear both sides and judge impartially. Full records must be kept of all transactions, and unless the pharaoh specifically dictates that the matter is to be kept secret, reports and messages must be delivered and read aloud publicly, thus ensuring transparency.

There is no direct statement of philosophy or purpose in *Duties of the Vizier*, but we can infer a few things from both the fact that the work was written at all, and by its relatively wide dissemination (several copies have survived, found in the tombs of later viziers, and we can assume that many other copies have since been lost). Ahhotep and her advisers were clearly bent on creating a stable system based on good practice that would function with minimal oversight. The vizier would run the administrative system, leaving the pharaoh to get on with making policy. That was the function of a bureaucracy thirty-five hundred years ago; it continues, in theory at least, to be its function today.

Thus in these two different economic systems, we can see two different approaches to organization: one comparatively decentralized and relying on a system of regulation and enforcement, the other heavily centralized and relying on a system of direct bureaucratic control.

## India

Classical Indian texts such as the *Rig Veda*, the *Mahabharata* and the *Upanishads*, a collection of theological and philosophical texts, had much influence on early Indian thinking on politics and society. Indeed, they continue to do so. Mahatma Gandhi, when charting the future of an independent India in the 1920s and 1930s, very often drew lessons and parallels with the modern day from the ancient texts.<sup>18</sup> Today, texts such as the *Mahabharata* and especially the *Bhagavad-Gita* remain influential.

The *Bhagavad-Gita* is part of the *Mahabharata*, though some scholars believe it is a later addition, possibly from the second or third centuries BC.<sup>19</sup> It takes the form of a dialogue between the god Krishna and his friend and follower the warrior Arjuna. As the text begins, Arjuna is reluctant to engage in a holy war, for it will mean fighting against his own kin and people whom he likes and admires. Krishna recalls Arjuna to his duty: he was born into the warrior caste, and therefore he must fight because that is his purpose in being. He tells Arjuna to banish all emotion and perform his duty with detachment and a calm mind. 'Be steadfast in yoga, O Arjuna. Perform your duty and abandon all attachment to success or failure. Such evenness of mind is called yoga ... He who is without attachment, who does not rejoice when he obtains good, nor lament when he obtains evil, is firmly fixed in perfect knowledge.' Lust, greed and anger are the paths to ruin; renunciation of the senses leads to inner peace and tranquillity.<sup>20</sup> The message for leaders is that they must remain steadfast and do what is morally right, even if their duty is distasteful to them personally.

There is another message in the *Bhagavad-Gita* too, one which is sometimes overlooked. All people in society have duties laid upon them by God and by their rulers. They should strive to perform those duties as well as possible, and not to seek to change the course of their life. 'It is better to engage in one's own occupation, even though one may perform it imperfectly', Krishna tells Arjuna when the latter expresses doubts about his path as a warrior, 'than to accept another's occupation and perform it perfectly ... by following his qualities of work, every man can become perfect'.<sup>21</sup> This very much includes merchants. Swami Prabhupada, in his notes on his own translation of the work, commen

that it is permissible for merchants to tell lies should this be necessary in order to make a profit, just as it is permissible for warriors to kill in order to be victorious. Again, merchants should simply accept that this is their lot and not express hankerings to become warriors or priests.<sup>22</sup> It should be noted that the *Bhagavad-Gita* is a description of how its authors feel that things should be, not how they actually were; later Indian works such as the *Kathasaritsagara* from the eleventh century AD show merchants and trade in a rather different light.<sup>23</sup>

The major text on administration to emerge from the classical period in India is the *Arthashastra* composed around 300 BC. This work consists of fifteen books, further sub-divided into 150 chapters of various lengths.<sup>24</sup> Its author, Kautilya, was a senior civil servant – according to some accounts, he held a post equivalent to that of prime minister – in the Mauryan kingdom, established in northern India by the warlord Chandragupta Maurya in the wake of Alexander the Great's invasion of India in 327–326 BC. Chandragupta had briefly been an ally of Alexander, but after the Macedonian king's abrupt withdrawal from India following a mutiny in his army, Chandragupta took advantage of the ensuing chaos to carve out a kingdom for himself. His successors went on to conquer most of the Indian sub-continent and establish a stable state that lasted for almost a hundred and fifty years.

Some sources ascribe that stability and success to the remarkably efficient bureaucracy developed by Kautilya and his officials early in Chandragupta's reign. There is no way of knowing how true this is, but we can be certain that on the whole the Mauryan kingdom was stable and well managed, and that the *Arthashastra* was widely read and apparently even used as an instructional text through much of that period.

The great majority of the *Arthashastra* is taken up with very detailed descriptions of the duties, roles and responsibilities of the king and his administrators. It includes instructions and procedures for collecting revenue, issuing writs and decrees, treasury management including detailed audits of receipts and expenses in order to prevent theft or fraud, the recruitment and pay of civil servants, and the composition of the royal court in minute detail, right down to the number of mistresses the king should be allowed. There are also chapters discussing the management of such economically important industries as agriculture, mining, forestry and jewellery manufacture.

But there is also a strong streak of philosophy running through the work. Kautilya is concerned not just with *how* the administration should function, but *why*. His is one of the first administrative treatises to consider not just function and procedure, but also purpose, aims and goals. It may come as a surprise to learn that Kautilya was not an absolutist. Unlike the Egyptian pharaohs, the Mauryan kings were not above the law. In Kautilya's conception, the king's purpose was to provide leadership and direction, but above all to uphold the *dharma*, an Indian term that we can define as 'righteous duty', something akin to the Western concept of natural law.<sup>25</sup> There is a natural order of things that is right and good: the king's duty is to make policy to achieve and maintain that natural order, and the duty of the bureaucracy is to support and implement that policy. In practical terms, this means that the king and his administrators should defend the state from attack, promote peace, order, justice and prosperity and, interestingly, 'encourage moral, religious and material progress'.<sup>26</sup> The purpose of the bureaucracy, then, was not just to administer things as they were ordered but to help promote change and make it happen.

Was Kautilya influenced by outside ideas? Two powerful philosophical systems had emerged not long before, that of Plato in Greece and that of Confucius in China. We know that there was substantial trade between India and China, and that philosophical and intellectual ideas were transmitted along those trade routes; it is not impossible that Kautilya was familiar, even if only second or third hand, with some of the ideas of Confucius. As for Plato, Chandragupta's ally Alexander the Great had been tutored by Aristotle, himself a pupil of Plato. Although there is no

proof, it is not impossible that some of Plato's ideas made themselves felt in the Mauryan kingdom and there are some similarities between the ideas of the *Arthashastra* and those of the *Republic* (see below).

Certainly Kautilya himself had a lasting influence. For example, the *Yajnavalkya Smṛti*, composed by the sage Yajnavalkya probably a hundred years or so after Kautilya, shows clear evidence on the influence of the *Arthashastra* in its discussions on the order and structure of society and on economic and banking.<sup>27</sup> The *Yajnavalkya Smṛti* in turn influenced other works including the Tibetan Buddhist work the *Mulasarvastivada-vinaya*, which among other things details the ways in which monasteries are to be organized and discusses their economic organization and business activities. There are strong similarities between *Mulasarvastivada-vinaya* and the Rule of St Benedict, developed by the Christian monk St Benedict of Nursia some three centuries later (see [Chapter 3](#)).<sup>28</sup>

## China

Ancient China produced not one but three important systems of thought, and all three offered comments on administration and management. Confucius, like Plato (and indeed, but with much greater coherence, like the writers of ancient Egypt and the Near East) sought to create an ordered social system that would endure. As well as civil administration, he commented directly, if briefly, on the role to be played by business people. Laozi (Lao-tzu) by contrast argued for a social system with minimal control where people are free to make choices, and supported the concept of natural law. The third writer, Han Fei, was a ruthless pragmatist who set out a detailed philosophy of bureaucracy.

By the time Confucius, Laozi and Han Fei appeared on the scene, Chinese civilization was well established. The Shang Dynasty ruled what is now north-eastern China in the valley of the Yellow River from about 1600 until 1046 BC, when it was overthrown by the Zhou dynasty. It was probably during the Shang period that the first texts of what later became known as the *Yijing* or *I Ching* (Book of Changes) appeared. The text was refined and developed during the Zhou dynasty and reached its final redaction during the Han dynasty in the first century AD. Essentially the *Yijing* is a divinatory text, which ancient kings and officials used in an attempt to understand and predict the future. However, its underlying principles including the concepts of *yin* and *yang*, the light side and the dark side, informed both Daoist and Confucian philosophies (see below), and it seems that its most important purpose was to force people to concentrate on fundamental issue of personality and interaction. The *Yijing* stresses the unity and harmony of creation; the efforts of all should be devoted to preserving harmony. There is thus a strong ethical theme to the work, and readers are constantly reminded that success depends on integrity. The work is full of often-quoted aphorisms such as 'to achieve great success by being upright and true is the way of heaven' and 'you will have good luck if you nourish what is right and true'.<sup>29</sup> As Mu-Lan Hsu and Kwan-Yao Chiu have shown, the *Yijing* has a long history as an aid to decision making by both administrators and business people in China.<sup>30</sup>

Several other works on administration emerged during this period, one of the oldest of which is the *Great Plan*, which again appeared in its final form in about 1120 BC but parts of which date back long before the Shang, perhaps as far as 2500 BC.<sup>31</sup> This short text is in part an exhortation to rulers to be virtuous and humble, but it also offers some thoughts on the role of administrators and officials. Kao Yao, a government official active around 2200 BC, likewise urged rulers to be virtuous and led by example.<sup>33</sup> More important still is *The Officials of Zhou*, composed around 1100 BC, which Violin Rindova and William Starbuck identify as the founding text of Chinese bureaucracy. In a similar fashion to the *Duties of the Vizier* but in more detail, *The Officials of Zhou* catalogues all the officials of the Kingdom of Zhou (which would shortly go on to conquer the Shang dynasty) and identifies the

duties and reports and also procedures by which their work can be checked and audited. It remains one of the most sophisticated documents on organizational structure to have survived from ancient times.<sup>34</sup> These and other writings on administration formed the intellectual basis from which two of China's most important thinkers, Confucius and Laozi developed their ideas.

## Confucius

The scholar, teacher and courtier Master Kong, better known to the world as Confucius, lived from 551–479 BC. He lived and wrote at a time when the Zhou dynasty was declining, on the eve of the era known as the 'Warring States' period when China fragmented into a number of small states, each fighting for control. It seems that Confucius was well aware of what was to come, and on one level his work can be seen as an attempt to stave off the coming chaos. His solution was to go back to the past to try to reassert the values that – or so he believed – had given China its strength and unity. 'Confucius was an idealist trying to solve problems', write Karl Moore and David Lewis. 'Seeing warfare and quarrelsome folk all around him, he looked back to the wisdom and ritual ways of China's past.'<sup>35</sup>

Much of Confucius's thinking was directed to the search for a philosophy, a 'way' by which order and peace could be restored. Although he had little influence in his own lifetime, his teachings collected by his followers under the title *Analects*, became one of the foundation texts of Chinese philosophy and education, and influenced not just China but much of the Far East. His later followers including Mencius and Xunzi, helped transmit his ideas and added concepts of their own. His ideas on ethics, politics, society and relationships are complex and detailed.<sup>36</sup> Here I propose to discuss just two ideas, the notion of the family, which remains central to Chinese society and business today, and Confucius's own ideas on the role of business in society.

Confucius begins from the insight that the life of every human being is played out within the context of their particular family, for better or for worse. For Confucius and generations of Chinese to come, it is one's family and the complex of relationships that constitute it, rather than the solitary individual, that is the basic unit of humanity.<sup>37</sup>

In the age-old debate as to who has priority, the individual or the group, Confucius comes down firmly on the side of the group. The concept of the 'self' is downplayed. Rather than personal *rights* Confucius speaks of the individual's *responsibilities* to the *group*. In practical terms, this means that those at the head of any institution – the family, the state, a business enterprise, a school – have responsibility to lead, and those who follow that lead are required to obey. Children should give unquestioning obedience to their parents; pupils should regard their teacher with reverence and never contradict him; ministers should obey the orders of the king. But this is not just a matter of blind obedience. Like the author of the *Great Plan*, Confucius also believes that parents – and teachers, and kings, and employees – have a duty to uphold the institutions they lead, and to protect and guide those who follow them. An essential quality of any leader, in Confucius's view, is wisdom. The perfect leader is the 'sage-king', who uses wisdom to guide him along the *dao*, the 'Way' of right thinking and behaviour.<sup>38</sup> The ultimate aim is the 'Golden Mean', a society that existed in perfect harmony, ruled by peace and wisdom. According to one of Confucius's disciples, Master Yu:

It is honouring parents and elders that makes people human. Then they rarely turn against authority. And if people do not turn against authority, they never rise up and turn the country into chaos. The noble-minded cultivate roots. When roots are secure, the Way is born. To honour

By 200 BC, if not earlier, Confucius's works were a standard part of the curriculum in Chinese schools and have remained so until the present day.<sup>40</sup> For many centuries, candidates for the Imperial Chinese civil service were required to read Confucius along with other Chinese classics such as the *Daxue* (Great Learning) and *Zhongyong* (Doctrine of the Mean). They were then examined on their knowledge of these classics, and it was proficiency in such knowledge that ensured whether they passed and were accepted into the civil service. The Imperial bureaucracy – until the ending of the system after the 1911 revolution – was thus populated entirely by convinced Confucians. Nor was the influence of Confucius restricted only to the civil service. The notions of filial obedience and responsibility to the group permeated virtually every aspect of society, including business. Prior to 1949 and the establishment of the communist state, virtually all Chinese businesses were organized using the family model, and even after that date the model continued in use among the economically powerful overseas Chinese communities of South-East Asia.<sup>41</sup> The 'Chinese family business' remains a model which has been widely discussed and studied by academics. As Malcolm Warner has recently shown, Confucian values such as interpersonal relationships (*guanxi*), obligations to other people and reciprocity play a direct role in Chinese methods of human resource management.<sup>42</sup> The direct influence of Confucian thinking on modern business thought and practice in east Asia is hardly overstated.

The other aspect of Confucius which deserves mention here is his attitude to business in society. It was, and sometimes still is, assumed that Confucius was essentially 'anti-business'. This assumption is present, for example, in the work of the German sociologist Max Weber, whose *The Religion of China*, first published in 1915, portrayed Confucian thought as hidebound by tradition, more focused on the worship of ancestors than on the present day, tending to stifle creative thought and innovation.<sup>43</sup> This remains the standard view of Confucius today, but the view is certainly open to challenge. Important here are the views of Chen Huan-Chang, a classically trained Confucian scholar who had fled China after an abortive revolution in 1895. Arriving in America, Chen went on to complete a Ph.D. in political economy at Columbia University, where he created a new interpretation of Confucian thinking in the light of contemporary Western economics.<sup>44</sup> In Chen's view, Confucius was by no means antipathetic to business, though he did believe that business ought to be restricted and controlled; Chen went so far as to claim that principles of 'Confucian socialism' can be identified in the Confucian thinking.

Confucius was clearly alive to the importance of wealth generation. When asked by a follower what should be done to improve the lot of the people, Confucius replied that there were two essential things: to educate the people, and make them wealthy. Education was required in order to understand how to use wealth wisely, not squander it on personal pleasures; wealth, in its turn, paid for education and made it possible. The two combined together would lead to personal enlightenment. Confucius also argued that virtue created wealth, not the other way around. He cited a passage from the *Daxue* in support of his views: 'The superior man must be careful about his virtue first. Having virtue, there will be the man. Having the man, there will be the land. Having the land, there will be wealth. Having the wealth, there will be its use. *Virtue is the root, and wealth is only its outcome*' [my italics].<sup>45</sup>

Like the lawmakers of Babylon, though, Confucius believed that economic activity could not exist unrestrained. The business people and landowners who generated the wealth were exposed to temptation and greed, and unless they were sufficiently enlightened, they could not be trusted to behave in a virtuous manner. Therefore, business people should submit themselves to the authority of the 'sage-king' who would rule over them and provide guidance just as a father would to a son.

turn, the sage-king would remain outside the economic system and would eschew personal wealth. Without wealth of their own, the sage-kings would have no personal interest in economic activity and would therefore act according to wise precepts rather than in hopes of personal gain.

Confucius believed in a regulated economy. He also eschewed competition, which like many later thinkers (including many capitalist ones) he regarded as harmful and wasteful. As part of the pursuit of the Golden Mean, he argued for a balance of supply and demand; when perfect equilibrium between the two was reached, competition would be eliminated. Unlike later Western economic thinkers, who argued for adjusting supply to match demand, Confucius called instead for the regulation of demand so that it would match supply. This meant both economic controls to restrict access to some goods, especially luxury goods, and a call to people to exercise personal restraint and be modest in their demand, and hence their spending habits. (The same call has, of course, been heard from some modern thinkers in the late twentieth century; reduced personal consumption has been seen as one way of tackling environmental degradation and climate change, for example.)

Two of Confucius's followers also deserve mention here. The first is Meng Ke or Mengzi, better known in the West as Mencius. He is known to have been active in the fourth century BC. A famous quote attributed to him, and quoted later by management historian Claude George, is said to anticipate one of the central ideas of scientific management:

Whoever pursues a business in this world must have a system. A business which has attained success without a system does not exist. From ministers and generals down to the hundreds of craftsmen, every one of them has a system. The craftsmen employ the ruler to make a square and the compass to make a circle. All of them, both skilled and unskilled, use this system. The skilled may at times accomplish a circle and a square by their own dexterity. But with a system, even the unskilled may achieve the same result, though dexterity they have none.<sup>46</sup>

The similarities with scientific management (see [Chapter 5](#)) are there, though to my mind the parallels with Harrington Emerson's efficiency movement (see [Chapter 5](#)) are even stronger. It needs to be added, though, that Chen Huan-Chang (whom George cites) paraphrased this quotation very heavily from the Mencian original,<sup>47</sup> and that both Taylor's *Shop Management* which first set out some of the principles of scientific management and Emerson's *Efficiency as a Basis for Operations and Wages* were in print at the time Chen was writing.<sup>48</sup> It is possible that Chen, knowing of scientific management, over-egged the pudding in order to make a point about how advanced Chinese thinking was.

However, Mencius did talk a great deal about the need for systems, particularly in the management of agriculture and land tenure, and he clearly believed in the use of a more systematic approach to administration rather than simply managing ad hoc. In that sense, he can be fairly seen as anticipating some of the ideas of Taylor and Emerson. Mencius also went much further than Confucius in his ideas on economic management, urging rulers to govern their economies well, to create conditions in which businesses could flourish and to keep taxes to moderate levels in order to encourage commerce and craftwork. He also paid a great deal of attention to ethical issues and argued that to behave ethically and morally was one of the first duties of a ruler.

The other writer, Xunzi, who was active during the third century BC, took a much softer line than Confucius on regulation. He believed that rules and regulations were only necessary to provide people with guidelines as to correct behaviour in uncertain times. When there was a stable political and social order, people would know naturally what was best and would behave correctly.<sup>49</sup> Xunzi does not discuss business directly, but there are clear implications for the conduct of business and for economic

regulations. Regulations are needed when times are hard; when times are good, they can be relaxed or dispensed with.

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## **Laozi**

Details of the life of Laozi are scarce, and it is not even certain if he existed at all; if he did, then he probably lived slightly earlier than Confucius. The work attributed to him, the *Daodejing* (or *Tao Te Ching* – literally, The Book of the Way and Virtue) was probably compiled around 300 BC, or possibly slightly earlier, probably from other texts and/or from material transmitted orally.

Daoists (or Taoists), as the followers of Laozi are known, take quite a different view of society from the Confucians. Whereas Confucians believe in the need for regulations, laws, rituals and ceremonies as guides to order and good conduct, the Daoists believe these things actually lead people astray. It was not lack of ceremony and rules that led Zhou society to break down, Laozi says, but too much of them, and not enough focus on the things that matter. The only sure guide to good conduct is to find the Way, or in practical terms, to find the right way of living and to stick to that:

Failing the Way, man resorts to virtue.  
Failing virtue, man resorts to humanity.  
Failing humanity, man resorts to morality.  
Failing morality, man resorts to ceremony.  
Ceremony is the merest husk of faith and loyalty.  
It is the beginning of all confusion and disorder.<sup>50</sup>

Daoists also believed in government taking a light hand, and intervening in society and the economy as little as possible. They espoused the principle of non-action, or *wu-wei*:

The highest type of ruler is one of whose existence the people are barely aware. Next comes one whom they love and praise.  
Next comes one whom they fear.  
Next comes one whom they despise and defy.  
When you are lacking in faith,  
Others will be unfaithful to you.  
The Sage is self-effacing and scanty of words.  
When his task is accomplished and things have been completed,  
All the people say: 'We ourselves have achieved it!'<sup>51</sup>

Daoism became one of those philosophies that people loved to discuss but rarely practised. As we have seen, and shall see again in a moment, Chinese government and business alike turned their backs on this model of leadership and opted for something altogether more authoritarian and structured. Daoism, with its love of paradox and its dislike of authority and control, was not well suited to the needs of ordinary Chinese, who craved authority and control as a defence against the troubled times in which they lived. Another Daoist philosopher, Zhuangzi, made a powerful argument for a connection between virtue and knowledge; only what he called an 'authentic person' could understand and interpret knowledge in such a way as to lead people effectively and in the 'right' way. (Again, there are echoes of Rob Goffee and Gareth Jones and their insistence that leaders must be 'authentic'.)<sup>52</sup>

However, Daoism did have one surprising and very powerful later influence. In the seventeenth

century, a French Jesuit missionary in China translated the *Daodejing* as *Le livre du ciel* (The Book of Heaven). Back in France this was read by the political economist François du Quesnay, who was particularly taken with the concept of *wu-wei*, which the Jesuit translator had rendered as *laissez-faire*. In his own book, *Le despotisme de Chine*, first published in 1764, Quesnay argued that the perfect monarch ‘should do nothing but let the laws rule’, the laws in this case being the natural ones which, if conformed to without interference, would see society exist in perfect harmony.<sup>53</sup> Laissez-faire is of course one of the cornerstones of free-market capitalism as it exists today, and influenced the Scottish economist Adam Smith when he coined his own term, the ‘invisible hand’ (see [Chapter 4](#)).

## ***Han Fei***

The third important Chinese figure from this period is Han Fei, who died in 233 BC.<sup>54</sup> Unlike the Confucians and Daoists, Han Fei did not believe that people could be expected to follow a system of ethics. Following the precepts of an earlier thinker, the statesman Shang Yang, Han Fei doubted the Confucian and Daoist view that human beings are essentially good. He suggested that the only way to achieve conformity to required standards and norms was through force of law – with draconian punishments for those who failed to obey the law.

Han Fei’s system comprised three elements: (1) *fa*, meaning ‘prescriptive standards’, which includes both the legal systems and the punishments for failure to obey the law; (2) *shi*, meaning ‘authority’ or ‘power’, which was exercised to enforce the law; and (3) *shu*, a method of controlling the bureaucracy by comparing ‘word’ with ‘deed’, or in other words, measuring actual performance against expectations. Needless to say, those that did not perform according to expectations were liable for punishment.

Han Fei believed explicitly in systems. Everyone should know what was expected of them, and perform their duties exactly as required. ‘Things have their proper place, talents their proper use’, he declared. His system had the advantage of clarity, in that no one could complain that they did not know what to expect. But Han Fei also decreed penalties for those who used their own initiative. This was expressly forbidden: acting without orders could lead to deviant behaviour and imperil the entire system, even if the action was for the best of reasons.

Marquis Zhao of Han got drunk and fell asleep. The keeper of the royal hat, seeing that the marquis was cold, laid a robe over him. When the marquis awoke, he was pleased and asked his attendants, ‘Who covered me with a robe?’ ‘The keeper of the hat’, they replied. The marquis thereupon punished both the keeper of the royal hat and the keeper of the royal robe. He punished the keeper of the robe for failing to do his duty, and the keeper of the hat for overstepping his office. It was not that he did not dislike the cold, but he considered the trespass of one official upon the duties of another to be a greater danger than cold.<sup>55</sup>

Conformity was everything; failure to conform, in any way, was dangerous. Today we would call this a ‘machine bureaucracy’, but Han Fei suggested that his system is a natural one, based on celestial harmony. A person acting on their own was like a star losing its place in the sky; it upset the natural order of things. And Han Fei did not mince words when it came to the means to enforce conformity. It was a simple matter of carrot and stick. Succeed and you will be rewarded; fail and you will be punished.

The enlightened ruler controls his ministers by means of two handles alone. The two handles are punishment and favour. To inflict mutilation and death on men is called punishment; to bestow



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