



Constructing a Confucian governance philosophy and a sustainable leadership model for enterprises

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Abstract

Against the backdrop of intense global capitalist competition and growing uncertainty, corporate governance faces structural challenges such as short-termism, the collapse of trust, and ethical anomie. Western mainstream management theories have long centered on instrumental rationality and performance orientation; while they have improved efficiency, they struggle to address issues of long-term organizational value creation and social legitimacy. Based on the Confucian governance philosophy of "cultivating oneself, regulating the family, governing the state, and pacifying the world", this paper integrates modern organizational behavior and corporate governance research to construct a Value-Oriented Sustainable Leadership Model. First, it explores the foundation of leaders' internal moral capital and self-management from the perspective of "cultivating oneself", demonstrating the theoretical alignment between ethical leadership and the Confucian path of "inner sageliness". Second, it analyzes the relational governance logic of teams as responsibility communities from the perspective of "regulating the family", integrating research on psychological safety and organizational citizenship behavior. Third, it equates "governing the state" with the modern corporate governance system of dual tracks of virtue and law, exploring the complementary mechanism between institutional design and moral education. Finally, it compares the long-term effects of two management styles—"kingly way (Wang Dao)" and "hegemonic way (Ba Dao)"—and proposes a theoretical framework for kingly way-based sustainable leadership. The theoretical contributions of this paper are threefold: First, it systematically translates Confucian ethical philosophy into an operable organizational governance model, expanding the theoretical boundary of indigenous management studies. Second, it integrates ethical leadership (Brown & Treviño, 2006), transformational leadership (Bass, 1985), stakeholder theory (Freeman, 1984) and corporate governance theory to propose a cross-cultural integrated perspective. Third, it identifies moral capital as a key source of enterprises' long-term competitive advantage and elaborates on its mechanism of action. The research results show that the integration of virtue and law, character-led leadership, and win-win outcomes for stakeholders constitute the foundation of enterprises' sustainable competitiveness.

Keywords: Confucian management, ethical leadership, corporate governance, sustainable leadership, Chinese enterprises

Introduction

Research Background and Research Motivation

Organizations which operate on a large scale encounter various organizational difficulties when they manage their business operations during the 21st century. The capital markets maintain their short-term financial focus through quarterly reporting and shareholder value optimization which drives managers to abandon their long-term investment plans for immediate profit gains thus creating a "managerial myopia syndrome" (Lavery, 2004) ^[18]. Digital transformation has brought about better operational efficiency but it has damaged the trust people have in each other because remote work setups eliminated casual office conversations and algorithmic systems now handle tasks instead of people and organizations have lost their emotional connections (Turkle, 2015) ^[25]. The ESG movement together with sustainable development goals has established new business requirements which require companies to perform beyond their financial targets while the traditional shareholder-based governance system struggles to maintain its authority. The Western management system which operates through KPI (Key Performance Indicators) has delivered impressive efficiency gains yet it has created multiple problems which include staff exhaustion and ethical dilemmas and reduced creative output (Schein, 2010) ^[23]. People in academic and practical fields have started to question whether businesses need to establish fundamental values and which governance system

could link financial success with human-centered approaches.

The present context receives a vital solution through the governance philosophy which Confucianism promotes. The Confucian teaching about personal development and family control and state administration and world stabilization follows a step-by-step system which starts with personal development and moves through family management and state control to achieve global harmony. The Great Learning begins with a deep teaching which states that people who want to show their true virtue to others must first learn to lead their home areas. People who want to lead their home areas need to learn how to manage their own family first. People who want to lead their home areas need to learn how to manage their own family first. People who want to lead their home areas need to learn how to manage their own family first. People who want to develop themselves need to fix their heart before they begin their self-improvement journey. People who want to fix their hearts need to start by creating genuine intentions. The process of making genuine intentions requires people to begin their learning adventure. People who want to develop genuine intentions need to start their journey by learning new information. The process of knowledge expansion requires people to study all existing things. The classic exposition demonstrates how personal moral development together with family relationship management and national institutional development create an ethical system which starts from internal self-work to

extend its impact on external communities. International management scholars have started to focus more on Eastern philosophy because of its growing importance in academic research. The 2025 ^[30] research which Meditari Accountancy Research published shows that Confucianism guides managers to develop organizations which focus on people while Buddhism teaches managers to adopt ethical behavior practices and Daoist wu-wei (non-action) helps managers find equilibrium between their present and future targets (Dellaportas *et al.*, 2025) ^[26]. The research shows that Chinese traditional philosophy shapes how senior leaders view business operations but management control systems let organizations use these philosophical ideas in their operational procedures. Harvard Business School added Chinese indigenous enterprise management practices to their teaching materials during 2024 which demonstrated the international academic community now accepts Eastern management wisdom (Zhang *et al.*, 2025) ^[26].

Research Questions and Paper Structure

The research paper focuses on three main research questions which stem from the background information presented above. The research aims to discover which moral capital leaders should develop and which emotional control techniques they need to master and which power monitoring systems they must develop for studying "inner sageliness" in present-day organizations. The research goal seeks to understand which moral capital leaders need to develop while they learn to control their emotions and they should create systems for monitoring power dynamics to investigate the practical application of "inner sageliness" research in today's organizational world.

Organizations seem to need their leaders to develop moral capital while they learn to manage their emotions and establish systems which monitor power dynamics to study what "inner sageliness" research means in organizational settings.

The research aims to understand which methods leaders can use to develop their moral capital and emotional control abilities while creating systems which monitor power dynamics for studying "inner sageliness" in present-day organizations. The research investigates which methods leaders need to develop their moral capital and emotional control abilities while creating systems which monitor power dynamics to study "inner sageliness" in modern workplaces. It investigates which methods leaders need to develop their moral capital and emotional control abilities while creating systems which monitor power dynamics to study "inner sageliness" in modern workplaces. It aims to find methods which leaders can use to develop their moral capital and emotional control abilities while creating systems which monitor power dynamics to study "inner sageliness" in contemporary organizations. Moreover, it research intends to find ways leaders can develop their moral capital and emotional control abilities while establishing systems which monitor power dynamics to study

Research Methods and Theoretical Perspectives

The research paper uses a literature research method which focuses on the theoretical development through its analysis of classic Confucian ideas alongside modern management theories by performing a systematic review and combined analytical approach. This paper combines four distinct

research traditions to establish its theoretical framework which includes Ethical leadership theory by Brown & Treviño (2006) ^[4] and Transformational leadership theory by Bass (1985) ^[1] and Stakeholder theory by Freeman (1984) ^[10] and Organizational culture theory by Schein (2010) ^[23]. Leaders in Ethical leadership theory according to Brown & Treviño (2006) ^[4] demonstrate moral excellence through their leadership style. Leaders in Transformational leadership theory according to Bass (1985) ^[1] use their leadership to develop their followers while they motivate them. Freeman (1984) ^[10] through Stakeholder theory states that businesses need to handle their various stakeholder group interests equally. The way organizations behave stems from their core values and fundamental beliefs which Schein (2010) ^[23] describes in his organizational culture theory. The study combines various theoretical frameworks with the Confucian concept of "inner sageliness and outer kingliness" to develop a research model which draws from Chinese culture while remaining relevant to different cultural settings.

Literature Review

1. Research on Ethical Leadership and Virtuous Leadership

Brown and Treviño (2006) ^[4] established ethical leadership as a vital organizational behavior term which they defined through their research. Leaders who demonstrate ethical behavior follow moral rules through their own behavior and their relationships with others. They also teach their followers to follow these principles by using open dialogue and positive feedback and through their choices. The study finds that ethical leaders demonstrate honesty and integrity while they show caring behavior toward others and they actively work to bring ethical principles into their organizational choices. The research shows that leaders who show ethical behavior create better work environments which make employees more satisfied with their jobs and more loyal to their organization and more willing to speak up while they commit fewer workplace violations (Mayer *et al.*, 2009) ^[19].

The research on virtuous leadership exists as a field which studies leadership behavior that shares common elements with ethical leadership. The Confucian Five Constant Virtues which include benevolence (Ren), righteousness (Yi), propriety (Li), wisdom (Zhi), and trustworthiness (Xin) serve as the foundation for Hackett and Wang's (2012) ^[12] virtuous leadership scale which shows that this leadership style explains employee performance better than transformational leadership in Chinese organizations. The research produces two important findings which show that Confucian ethics exist as a distinct cultural system but they also provide a leadership model which functions across all cultural boundaries. Yuan (2024) ^[27] developed his research further through his book *Confucian Virtuous Leadership: A Localized Study of Ethical Leadership* which builds on his previous work. The research shows that Chinese business leaders base their ethical conduct on Confucian virtue ethics which supports the integration of these values into business ethics research and application. The argument of Yuan shows that Confucian values which include "benevolence and love" and "honesty and trustworthiness" and "righteousness and profit" naturally align with modern corporate social responsibility and stakeholder management practices which can also function as cultural foundations for developing native ethical leadership frameworks.

2. Transformational Leadership and Charismatic Leadership Theories

The transformational leadership theory which Bass (1985)^[1] stands as a fundamental framework which contemporary leadership studies base their work on. The four core elements of transformational leadership consist of idealized influence and inspirational motivation and intellectual stimulation and individualized consideration. Leaders who practice idealized influence become role models for their followers through their demonstration of strong moral values which they actively live by. Research on charismatic leadership emphasizes the leader's personal charisma in arousing followers' emotions and constructing identification. The authors Conger and Kanungo (1998)^[6] described charismatic leaders as visionaries who perform unorthodox actions while they monitor their surroundings and they demonstrate complete dedication to their mission. The dark side of charismatic leadership emerges when leaders use their personal magnetism without moral boundaries which leads followers to follow them blindly while the organization loses its way (Howell & Avolio, 1992)^[13]. Leaders require moral limits to stop them from becoming tyrants because this warning follows the same path as Confucian opposition to the "hegemonic way".

3. Stakeholder Theory and Corporate Social Responsibility

Freeman introduced the stakeholder theory in 1984^[10] which opposes the traditional view that businesses should focus solely on their shareholders. The theory shows that businesses need to balance their multiple stakeholder requirements because this approach leads to their survival and growth rather than focusing on maximizing the interests of one particular group. The development of stakeholder theory established the academic framework which supports corporate social responsibility (CSR) while it also helped spread the ESG governance system throughout the business world. Liu (2010)^[29] used stakeholder theory together with Confucian teachings about personal development and family control and state management and world peace to build a four-part system which includes "self-cultivation" and "calming people" and "strategic planning" and "stabilizing the state". The book shows that Confucianism which focuses on manager development and worker supervision and strategic choices and community duties matches the way stakeholder theory handles different stakeholder groups. The research method of this study obtains its fundamental approach from the combination of traditional thoughts with contemporary theories which creates a structured framework for analysis.

4. Modern Interpretation of Confucian Management Thought

Academic scholars who study modern management practices have developed three core approaches to understand Confucian management principles. The first is the ethical orientation, which emphasizes the guiding role of Confucian values in managers' moral cultivation, such as the aforementioned research by Yuan (2024)^[27]. The first orientation stands as the ethical perspective which promotes managers to develop their moral abilities through following Confucian principles according to Yuan (2024)^[27]. The second is the governance orientation which studies how Confucian principles shape the establishment of

organizational systems. The research by Cui (2024)^[28] shows that social governance needs to combine self-rule with official control through moral authority which operates under legal systems and corporate compliance governance achieves this through its rule-based system which operates under legal frameworks and business ethics. The perspective establishes modern corporate governance principles by transforming the traditional Confucian approach which values virtue above all but uses punishment as a secondary measure.

The strategic orientation represents the third approach which investigates how Confucian principles guide businesses to develop their competitive strategies. Chen (2014) introduced the "kingly way entrepreneur" concept which describes a leadership style that promotes both acceptance of all people and unites different groups to achieve mutual benefits and shared success. The hegemonic way focuses on military victory through control operations which follow a zero-sum competitive approach. The post-financial crisis business world demands enterprise leaders to adopt kingly way business thinking because it enables them to achieve professional success while maintaining their dedication to human values and understanding the needs of businesses and their surrounding communities. The exposition delivers basic ideological materials which enable the comparison between the kingly way and the hegemonic way in Section 5 of this paper. The current research field has added new perspectives which build upon the previous orientations. Li (2025)^[30] developed four core elements which define the "new Confucian merchant spirit" during the digital and intelligent era through his research: wisdom for innovation, courage for responsibility, benevolence for caring for others, and righteousness for generating profit. The author unites Confucian moral principles with contemporary digital economic systems through this research. Wang (2025)^[31] through philosophical research showed that modern Confucian merchants need to focus their professional work on "learning to become a person" while they should use businesses as their educational environment for personal growth and their mission involves following the Dao through commercial activities which they should view as a social ethical and cultural transmission system. The research on Confucian management thought has developed from basic conceptual work to useful application and from national studies to global academic conversations according to these expositions.

5. Theoretical Gaps and the Positioning of This Study

The literature review reveals various research deficiencies which exist within present academic studies. The Western leadership theories of ethical leadership and transformational leadership need to establish their bases because their cultural assumptions about individualism and universalism create conflicts with Eastern cultural values. Research into Confucian management thought has produced useful insights but most studies operate at the conceptual level without developing practical theoretical frameworks and specific research hypotheses. Researchers refer to the Confucian theoretical framework which includes "self-cultivation and family management and state administration and world peace maintenance" (Liu, 2010)^[29] but no study has created a hierarchical model for organizational governance based on this framework. The research intends to solve the problems mentioned above by creating an

organizational management system which converts Confucian ethics into practice through the framework of "self-cultivation and family management and state governance and world peace maintenance" and by developing a cross-cultural management approach through the combination of ethical leadership and stakeholder theory and corporate governance studies and by creating theoretical models for sustainable leadership which focus on value through the comparison of "kingly way vs. hegemonic way" approaches. The research seeks to solve the problems from earlier studies through its creation of an organizational management system which transforms Confucian ethical principles into practice by using the framework of "self-cultivation and family management and state governance and world peace maintenance" and by developing a cross-cultural management approach through the combination of ethical leadership and stakeholder theory and corporate governance studies and by creating theoretical models for sustainable leadership which focus on value through the comparison of "kingly way vs. hegemonic way" approaches.

Cultivating Oneself

1. Self-Cultivation as the Foundation of Ethical Leadership

The Great Learning states: "From the Son of Heaven down to the common people, all must regard cultivating the person as the root." The fundamental principle of Confucian philosophy becomes clear through this traditional text which shows that successful governance requires leaders to develop their own moral values. Organizations in present-day business environments base their leadership conduct and decision-making abilities on two fundamental principles which stem from their leaders' internal values and ability to control themselves.

Brown and Treviño (2006) [4] define ethical leadership through two main components which include "personal demonstration" and "two-way communication" and "personal demonstration" directly matches the Confucian idea of "self-cultivation". Ethical leaders show honesty and impartiality and care through their actions which establish moral standards for their followers to follow. The process follows the exact pattern which Confucius described through his *Analects* and *Zilu* who stated that rulers who act with correctness will receive voluntary obedience from their people but rulers who act with incorrectness will fail to get obedience even through force. The way a leader can gain moral authority depends on his ability to inspire others rather than his position of power. Yuan's (2024) [27] research further points out that Confucian virtue ethics and ethical leadership are inherently consistent. The core qualities of ethical leaders exist within the Confucian Five Constant Virtues which include benevolence and righteousness and propriety and wisdom and trustworthiness. Leaders who practice "benevolence" show empathy and care to their staff members. Leaders who practice "righteousness" base their decisions on fairness and follow proper procedures. Leaders who practice "propriety" follow established rules while demonstrating respect for their colleagues in their work environment. Leaders who practice "wisdom" use their knowledge to make suitable decisions in different situations. The foundation which leaders and followers use to build trust rests completely on their ability to demonstrate trustworthiness. The view presents Confucian virtues through visible leadership actions which allow us to

measure them while it shows us how to use the self-cultivation concept in practice.

2. Self-Awareness and Emotional Regulation

Modern psychological research has confirmed that leaders' self-awareness is a key factor in effective leadership. The research of Kahneman (2011) [15] demonstrates that leaders who understand themselves well can discover their mental boundaries which helps them prevent decision errors caused by excessive confidence and confirmation bias and the sunk cost effect. Self-reflection and solitude caution serve as the original Confucian methods which people use to develop their self-awareness abilities. The practice of *Zengzi* which involves three daily self-reflections according to the *Analects of Confucius*. Xue Er requires people to check their actions and words against moral guidelines every day to develop better self-awareness of their motivations and actions.

Leadership needs emotional regulation because it functions as an essential core competency which they must master. Research by George (2000) [11] demonstrates that leaders who maintain emotional stability develop better team performance results and leaders who master emotional intelligence can successfully manage stressful situations while they solve disputes and inspire their team members. The Confucian thought of "the mean (*Zhong He*)" provides profound insights into this. The Doctrine of the Mean defines two stages of emotional response: the initial stage before pleasure and anger and sorrow and joy emerge which it names the mean and the stage when these emotions reach their proper balance and intensity which it calls harmony. The exposition shows that emotions do not possess inherent moral value since their worth depends on their appropriate timing during expression. The current emotional regulation theory of adaptive expression supports this perspective because it shows emotional management focuses on suitable emotional expression instead of trying to eliminate all feelings. Organizational behavior studies show that leaders who control their emotions well will transmit their emotional state to their entire team through the process of emotional contagion. Leaders who maintain their composure during emergencies and show understanding during disputes create an emotional pattern which their team members will follow to establish a consistent workplace environment. The Confucian statement that "to cultivate oneself in accordance with the Dao, and to cultivate the Dao with benevolence" (the Doctrine of the Mean) precisely emphasizes that leaders' internal cultivation will be externalized into the organizational moral climate through interpersonal interaction.

3. Power Regulation and Moral Capital

Power exists as a fundamental force which shapes organizational operations yet it produces corruptive potential when people fail to apply ethical standards to their use of power. Foucault's study from 1977 [9] on microphysics of power shows that power operates beyond repression because it actively produces effects which shape human identities while managing their actions and creating new knowledge systems. Leaders who fail to reflect on themselves will develop power arrogance which leads them to choose their own direction instead of following organizational rules and ethical standards. Confucius established "governing with virtue" as his solution to

address this particular issue. The Analects of Confucius-Weizheng states: "To govern a state with virtue is like the North Star, which remains in its place and all the other stars revolve around it." Leadership derives its right to lead from moral authority instead of power according to this exposition. Leaders develop voluntary follower obedience through their personal virtues instead of needing to use their position of power to force people into obedience. The perspective supports Kelman's (1958) ^[16] social influence theory because power-based obedience leads to compliance yet virtue-based obedience results in followers accepting leader values which they make their own beliefs.

Fombrun (1996) ^[8] developed the concept of "reputation capital" as an analytical tool which shows how moral capital operates within organizations. An enterprise holds an intangible asset which functions as its reputation to build trust with stakeholders while decreasing transaction expenses and creating stronger market positioning. A leader's moral image functions as a crucial element which shapes the reputation of a business organization. Leaders who show honesty and fairness and social responsibility build moral capital which benefits their business organization. Business reputation becomes vulnerable when leaders experience scandals which lead to major damage. Self-cultivation functions as a personal achievement which simultaneously serves as a strategic organizational matter because a leader's moral capital determines how well a company will perform in the future.

4. Self-Cultivation and Long-Termism

The current business environment requires organizations to solve their conflicting needs which demand immediate results and their obligation to build enduring value. The capital markets operate through quarterly financial reporting which works with analysts' profit estimates and investors' quick buying and selling activities to create strong market demand for immediate returns. The research by Bazerman and Tenbrunsel (2011) ^[2] shows that managers develop "ethical slippage" when they face intense pressure which leads them to slowly lower their moral values in order to achieve immediate results but this process ends up creating major ethical violations. The decision-making ethical framework for this dilemma stems from the Confucian distinction which separates "righteousness and profit." The Analects of Confucius-Liren presents Confucius teaching that gentlemen grasp righteousness but petty men focus on profit although the text allows for profit seeking it demands profits should follow moral principles. Mencius developed this concept further through King Hui of Liang I when he said rulers should focus on benevolence and righteousness instead of profit because these values will bring about natural economic benefits. The current corporate social responsibility research supports this principle through its "doing well by doing good" framework which shows that businesses following ethical standards will achieve sustainable financial success.

The practice of self-cultivation enables people to develop skills which help them avoid giving in to their immediate desires. Leaders who want to develop a strong value system need to practice ongoing self-reflection and moral growth because these methods help them defend their ethical principles against short-term results demands. Modern management research refers to this capability as "moral courage" because it shows how people maintain their moral

beliefs despite facing potential hazards or financial setbacks. The research conducted by Sekerka and Bagozzi (2007) ^[24] demonstrates that people can develop moral courage through training and practice which creates a connection with the Confucian idea of "learning to become a person".

5. The Transformation Mechanism from Self-Cultivation to Leadership

The writers in this section have identified four methods which transform self-development practices into leadership abilities.

1. Organizations develop their ethical climate through leaders who demonstrate moral conduct because followers learn from their actions by watching and interacting with them.
2. Leaders who practice self-reflection and emotional regulation develop their ability to assess situations correctly which helps them fight against cognitive biases during their decision processes and leads to improved decision outcomes.
3. Leaders build moral capital through their honest and fair conduct which leads followers and stakeholders to trust them more while decreasing organizational transaction expenses.
4. Leaders who maintain a solid value system will fight against immediate performance demands while they work toward building long-term value and defend their ethical principles.

The mechanisms above serve as the foundation for the upcoming analysis in this paper which demonstrates how leader self-development methods influence their personal actions while spreading through organizational networks which stem from social connections and organizational systems and cultural elements. The modern interpretation of Confucian "inner sageliness and outer kingliness" establishes that people need to develop their inner morals before they can effectively lead organizations in the outside world.

Regulating the Family

1. From Family to Team: The Logic of Relational Governance

The original Confucian concept about family management refers to household control but its underlying relational ethics resemble how organizations control their teams today. Mencius stated that the world depends on state power which depends on family structure which depends on individual human beings according to his work Li Lou I in the Mencius text. The family exists as a connecting link which connects personal existence to state authority. Teams function as essential links between modern businesses which operate as basic organizational elements that help employees build their professional identity. The stakeholder theory by Freeman (1984) ^[10] presents an enterprise as a system which generates different values while employees stand as core stakeholders who belong to this system. People in the workplace exist as social beings who connect with their colleagues through their team-based relationships. The Confucian "family regulation" thought shows team leaders that their teams require members who share responsibility instead of working as simple task performers. The family values which Confucianism teaches help Liu (2010) ^[29] create team leadership strategies which show how to control

human emotions through modern organizational methods. The three principles show present-day worth through their emphasis on leader-follower shared objectives and their ability to adapt to different perspectives and their dedication to valuing human beings above all else. The three principles demonstrate which team members should perform the same tasks to reach team objectives and which members must work together by combining their different viewpoints and which members should obtain maximum respect because they represent human resources. The team governance system operates through these principles which view members as people who need personal development instead of using them only for task completion.

2. Trust Construction and Psychological Safety

The concept of psychological safety emerged from Edmondson's 1999 [7] research which now serves as a fundamental concept in team performance studies. Team members believe they can share their thoughts and ask questions and admit their errors because psychological safety exists without any threat of disciplinary action or social embarrassment. Her research shows that psychological safety is positively correlated with team learning behavior, which in turn affects team innovation performance and problem-solving ability. The Confucian concept of benevolence serves as a cultural basis which supports the development of psychological safety. The Mencius·Li Lou II teaches that leaders need to show genuine care for their team members while they build an environment which supports all members of the team. Team members will take interpersonal risks and share their failure experiences and propose new ideas when they perceive their leader shows authentic concern for them which leads to psychological safety. The practical case of Fuwei Planning Group shows that the company, based on the Confucian "benevolence and propriety" system, incorporated employee family care into the management system through the "Good Filial Piety 1+1" mechanism, effectively strengthening organizational cohesion and employee sense of belonging (Zhang *et al.*, 2025) [26].

Trust functions as the core base which creates psychological safety while it enables teams to work together effectively. The Confucian value of "trustworthiness"—"When interacting with friends, one should keep one's word" (the Analects of Confucius·Xue Er)—emphasizes the importance of consistency between words and deeds and the fulfillment of commitments. The formation of trust between team members requires extended periods of time while they test each other's actions through their behavior. Team members develop trust through their discovery of shared values between their spoken words and their actual actions and when leaders deliver on their promises to the team. Social exchange theory predicts this process because long-term reciprocal exchange builds up relational capital which strengthens both team stability and resilience.

3. Team Cohesion and Organizational Citizenship Behavior

Organizational citizenship behavior (OCB) describes employees who perform voluntary actions at work which benefit their organization through activities that exceed their defined work duties. A meta-analysis by Podsakoff *et al.* (2000) [21] confirmed that organizational citizenship behavior is significantly positively correlated with team

performance and organizational effectiveness, and is an important predictor of organizational success. The Confucian concept of "righteousness"—"The gentleman understands righteousness"—emphasizes a moral sense of responsibility that transcends personal interests, which is precisely the internal motivational source of organizational citizenship behavior. Team members who identify with team goals and team well-being will automatically perform activities which benefit their team even when these activities fall outside their designated job duties. The high-performance work systems theory proposed by Becker and Huselid (1998) [3] points out that high-commitment work design, participatory management, and incentive human resource practices can stimulate employees' internal motivation and promote the generation of organizational citizenship behavior. The perspective reflects the Confucian management approach which centers on human development as its main principle.

The kingly way management approach tends to create conditions which help people find motivation from their own internal drives. Chen (2014) pointed out that the kingly way emphasizes "practicing benevolence with virtue" and influencing others through moral inspiration rather than power suppression. The kingly way management style enables employees to discover their personal values, which leads them to perform organizational citizenship behavior because they don't need external rewards or penalties to guide their actions. The hegemonic way management style depends on power to control people but this approach achieves immediate compliance from employees yet it fails to create enduring employee engagement.

4. Conflict Resolution and Harmony Management

Teams will always deal with conflicts which seem to be an unavoidable part of their operations during their work activities. The Confucian approach to conflict resolution involves modifying disputes until they reach a state of peaceful balance. The ritual system works to create harmony according to Youzi because propriety serves to achieve this goal. The term "harmony" in this context describes the process of uniting different elements which exist in the Discourses of the States·Discourses of Zheng by stating "Harmony generates things, while uniformity leads to stagnation." People who lead teams can apply this perspective to their work by following the "constructive conflict management" principle which helps them manage team conflicts. The research by Jehn (1995) [14] identifies two types of conflict which include task conflict and relationship conflict. The research shows that task conflict which stays at a moderate level improves decision-making quality but relationship conflict creates problems for team performance. The Confucian idea of "harmony without uniformity" supports this distinction because team members need to honor their individual differences (without uniformity) while following the team's overall objectives (harmony) for task-based disagreement and emotional harmony based on mutual respect.

The leader needs to take charge during conflict resolution because their role proves to be essential for this process. The Doctrine of the Mean requires leaders to understand all opposing viewpoints so they can discover a balanced solution which serves the needs of the people. The "doctrine of the mean" approach aligns with modern conflict management theory which uses "integrative negotiation" to

their work duties and their authority levels and performance standards will achieve better job satisfaction and work results according to Rizzo *et al.* (1970) ^[22]. The Confucian concept of "rectifying names" adds an extra moral layer to this system because organizations need both defined role responsibilities and leaders who possess the ethical qualities needed for their positions. Institutional design needs to go past simple job analysis because it must establish the ethical value which each position brings to the organization. People need to do their work duties according to their position because Confucianism requires staff members to do their assigned work while producing excellent results according to Liu (2010) ^[29]. The viewpoint establishes a discussion with agency theory because agency theory studies how to create institutions which block agents from pursuing their personal interests. The Confucian perspective requires agents to understand their duties and maintain moral conduct which leads to self-monitoring through value adoption. The two systems operate together because institutional prevention works in harmony with moral internalization to form the complete system of governance.

3. The Governance Mechanism of the Integration of Virtue and Law

Corporate governance needs to unite virtue-based governance with legal frameworks through a system which explains their operational methods and how they support each other. The paper introduces a Governance Model which unites Virtue with Law through three fundamental operational systems. The rule of law establishes the bottom line, and governance by virtue raises the high line: The legal system establishes basic conduct requirements which demand people to avoid fraud and corruption while following all labor laws and regulations. Moral education guides people to develop better conduct through their pursuit of excellence and their commitment to society and personal growth. The two systems operate as a continuous spectrum which moves from basic compliance to achieving highest levels of excellence.

The legal system operates through established rules but governance by virtue provides organizations with their essential ethical direction: Organizations operate through institutional norms which establish their fundamental operational structure by creating standardized processes and defining power and responsibility distribution and reward and punishment systems. The system receives its soul through moral values because they transform the system from a set of rules into a system which embodies the organization's philosophical beliefs and its mission statement. Schein's (2010) ^[23] organizational culture theory identifies systems and processes as the "artifacts" which represent organizational culture while shared values and basic assumptions exist as its deepest level. The integration of virtue and law precisely requires the consistency between surface-level systems and deep-level values.

The rule of law operates to manage standard cases yet governance by virtue handles all situations which deviate from the ordinary. Organizations face unexhaustible scenario possibilities because their systems fail to cover every potential situation which might occur. The organization's ability to adapt and its ethical standards depend on employees who demonstrate moral judgment and value agreement because they must choose correctly according to organizational values. The Confucian system

of "constant principles and flexible adaptation" operates through its fixed Dao (Jing) which enables it to adjust appropriately to all changes (Quan). The actual example of Fuwei Planning Group reveals that the business developed a two-way management approach which combines "ritual governance + the rule of law" to connect public emotions with cultural values and to achieve results through operational standards. The practice demonstrates governance through the integration of virtue with law because the system produces stable results which culture provides with its own identification system and meaning. The two systems operate together as a complementary system which forms the organizational base for governance.

4. Compliance Governance and the Accumulation of Moral Capital

The rising movement of corporate compliance governance in recent years has provided a specific operational path for the integration of virtue and law. Compliance governance requires enterprises to establish a systematic internal control mechanism to ensure that business activities comply with laws and regulations, industry standards, and internal norms. On the surface, compliance governance seems to be a purely legal practice; but in-depth analysis shows that effective compliance governance must be supported by a moral culture. Cui (2024) ^[28] pointed out that the construction of a corporate compliance governance system is essentially a manifestation of enterprises' self-supervision, self-development, and self-rectification, and its success depends on the formation of a corporate culture with business ethics as the core. When employees regard compliance as an internal value rather than an external constraint, compliance governance can truly play a role. This view echoes the Confucian concept of "having a sense of shame and rectifying oneself"—the real effect of governance lies in making members spontaneously follow the norms, rather than merely obeying out of fear of punishment.

From a strategic perspective, compliance governance is also an important way for enterprises to accumulate moral capital. When an enterprise establishes a strict compliance system and implements it in actual operation, it sends a signal of honesty and responsibility to stakeholders. In the long run, the enterprise's social reputation and trust capital will continue to accumulate, forming an imitable competitive advantage. Fombrun's (1996) ^[8] research confirmed that a good corporate reputation can attract outstanding talents, enhance customer loyalty, reduce financing costs, and increase market value. In this sense, the governance of the integration of virtue and law is not only a means of risk control but also a source of value creation.

5. Theoretical Propositions of the Integration of Virtue and Law

Synthesizing the discussions in this section, the theoretical propositions of the Governance Model of the Integration of Virtue and Law can be summarized:

Proposition 6: Governance by virtue and the rule of law form a complementary relationship in corporate governance—the rule of law establishes the bottom line and framework, and governance by virtue raises the high line and injects the soul; the rule of law addresses normal situations, and governance by virtue addresses exceptional situations.

Proposition 7: The application of the "rectifying names" principle to institutional design requires position design to have both clear role definition and appropriate ethical connotation to promote employees' role identification and sense of responsibility.

Proposition 8: Effective compliance governance must be supported by a moral culture, transforming compliance from an external constraint into an internal value to achieve the governance effect of "having a sense of shame and rectifying oneself".

Proposition 9: The governance practice of the integration of virtue and law can accumulate enterprises' moral capital, enhance competitive advantage through the reputation effect, and realize long-term value creation.

The above propositions constitute the theoretical framework for enterprise-level governance. The next section will integrate the discussions at all levels in the previous text through a comparative analysis of the kingly way and the hegemonic way, and construct a complete model of sustainable leadership.

The Kingly Way and the Hegemonic Way

1. The Conceptual Origin of the Kingly Way and the Hegemonic Way

Mencius created the fundamental categories of Chinese political philosophy which include the "kingly way (Wang Dao)" and the "hegemonic way (Ba Dao)". Mencius stated that a person who uses force to show fake kindness becomes a hegemon while a hegemon needs to possess a strong state to maintain power. The practice of benevolence through virtue leads to kingship but a king does not require a strong state to rule effectively (Mencius·Gongsun Chou I). The two methods show their basic difference because the hegemonic approach uses force through power while presenting itself as both kind and moral but the kingly approach uses moral principles to govern with kindness. The Journal of Leadership Science released a special article which showed how later scholars developed this difference further by stating that the kingly way follows virtue principles yet ministers keep their independence but the hegemonic way focuses on results through military conquest until all opponents surrender. The kingly way uses logical arguments to persuade people but the hegemonic way forces people into submission through military power.

The kingly way management approach leads to enterprise management through moral guidance and value-based leadership which produces benefits for all stakeholders but the hegemonic way management approach leads to power-based control and performance-based demands which results in competitive zero-sum outcomes. The kingly way entrepreneur appears most clearly through Chen's (2014) research: kingly businesses operate with mutual benefit and win-win results while they possess the ability and desire to succeed without trying to control everything; hegemonic businesses operate through single-sided benefits while they follow a "winner-takes-all" competition system which enables them to grow large but their sustainability becomes uncertain. Organizations exist between two extremes which represent the kingly way and the hegemonic way in their management approaches. Most companies apply management systems which combine both elements yet their

success depends on which element dominates the other. The paper supports the kingly way as the base system which should receive hegemonic way application through the spirit of the kingly way as its foundation and specific situations should receive hegemonic means under kingly way value restrictions.

2. Fear-Based Management and Innovation Inhibition

The core mechanism of hegemonic way management is "management by fear"—controlling employee behavior through the threat of punishment, performance pressure, and the display of power. Organizations based on fear management achieve rapid obedience and operational efficiency during their initial stage but they will develop dangerous problems which affect their business operations. First, fear-based management inhibits innovation. Researcher Edmondson (1999) [7] determined that teams require psychological safety as their fundamental need to perform learning tasks and develop innovative solutions. The core elements of innovation become unachievable for employees who work under fear because they lose their ability to speak up about problems and explore new approaches and share their errors. The Confucian evaluation of hegemonic rule through violent human control matches this system because outside authority achieves only surface-level compliance yet fails to generate creative mental processes.

People tend to lose their trust when organizations start using fear-based management methods. The way employees view their managers' leadership style determines how their trust in the organization develops because managers who lead through power instead of moral values will make employees lose confidence in their organization. Researcher Kramer (1999) [17] discovered that trust repair requires organizations to spend enormous resources which they must bear after trust relationships become damaged. The behavior of employees in low-trust organizations leads them to defend themselves instead of working together which results in increased organizational coordination expenses that damage the organization's ability to compete in the future. Third, fear-based management leads to ethical slippage. Organizations which focus too much on performance targets while neglecting ethical boundaries will drive employees to lower their moral standards for goal achievement according to Bazerman and Tenbrunsel (2011) [2]. The hegemonic way management style shows this pattern most because it operates through force while maintaining a fake appearance of kindness and moral superiority. The hegemonic way management style operates through power while using morality as an instrument instead of following it as a core value.

3. The Theoretical Model of Kingly Way-Based Sustainable Leadership

Integrating the discussions in all previous sections, this paper proposes a Kingly Way-Based Sustainable Leadership Model, whose core propositions are as follows:

Proposition 1 (Individual Foundation): Kingly way-based sustainable leadership is rooted in leaders' moral cultivation. Leaders must continuously conduct self-reflection and moral practice, accumulate moral capital, to generate genuine charisma.

Proposition 2 (Team Process): Kingly way-based sustainable leadership constructs the team as a responsibility community. Through care, trust, and empowerment, it creates a psychologically safe organizational climate and stimulates members' intrinsic motivation and organizational citizenship behavior.

Proposition 3 (Institutional Conditions): Kingly way-based sustainable leadership realizes the governance of the integration of virtue and law. It takes the system to construct the bottom line and framework, and culture to inject meaning and soul, enabling the organization to maintain flexibility in stability and accommodate innovation in norms.

Proposition 4 (Outcome Orientation): Kingly way-based sustainable leadership pursues win-win outcomes for stakeholders. Transcending the narrow perspective of shareholder primacy, it balances the diverse interests of employees, customers, suppliers, communities, the environment, etc., and realizes the symbiosis and common prosperity of enterprises and society.

Proposition 5 (Dynamic Evolution): Kingly way-based sustainable leadership emphasizes continuous improvement and dynamic adaptation. As stated in the Great Learning: "If one renews oneself for a day, let him renew himself every day, and keep on renewing himself day after day." Both leaders and organizations must continue to evolve through reflection to respond to the challenges of environmental changes.

This model is consistent with the research findings of Dellaportas *et al.* (2025) [26]. Their study found that Confucianism inspires managers to build a people-centered organizational climate, the Daoist principle of wu-wei promotes a balance between short-term and long-term goals, and Buddhism fosters a managerial mindset of ethical behavior. These findings confirm that traditional Chinese philosophy can be concretely implemented in organizational practices through management control systems, forming a sustainable competitive advantage.

4. A Comparison of the Long-Term Performance of the Kingly Way and the Hegemonic Way

The short-term benefits of hegemonic way management become evident because this approach enables fast decision processes and rigid monitoring which produces effective results and financial gains during initial business phases. The kingly way management system delivers its most effective results when organizations track their performance across multiple years. The research by Collins and Porras (1994) [5] about "visionary companies" showed that businesses which sustain long-term success base their operations on core values and mission-driven goals instead of focusing only on profit growth. The leaders of these organizations follow the kingly way management style because they use value-based leadership instead of power-based control and they focus on sustainable growth instead of making quick gains.

The sources of competitive advantage reveal that kingly way management produces long-term performance benefits through these specific mechanisms: The kingly way management system establishes an organizational

environment which shows respect and care while promoting development because this approach attracts skilled professionals who choose to stay with the company. The knowledge economy era demands businesses to establish their main competitive edge through their employee base because this factor becomes most important during this period. Organizations can generate innovative work because psychological safety and employee intrinsic motivation enable them to develop new products and processes, which helps the organization adapt to environmental shifts. Kingly way management builds moral capital which elevates social reputation and brand value of enterprises while stakeholders develop stronger trust relationships with their organizations. The governance system which combines virtue with law functions to decrease ethical and compliance threats which helps organizations prevent major financial damages that result from legal proceedings and public scandals. The kingly way management system enables organizations to develop strong unity which helps them adjust quickly during emergencies so they can restore their regular business operations at a faster pace. Chen (2014) describes the kingly way entrepreneur through the following statement: "Kingly way entrepreneurs are committed to balancing career achievements with humanistic care, taking into account the needs of individual enterprises and the overall society, and pursuing the integration of the whole and long-term development." The presentation establishes a cultural base which offers sustainable leadership methods for practical application.

Conclusions

The paper develops a theoretical model of sustainable leadership through kingly way principles by combining Confucian philosophy with ethical leadership and stakeholder theory and corporate governance research. The main theoretical contributions can be summarized into three points:

The study creates a new organizational governance model which derives its principles from Confucian ethical philosophy through a structured approach. The modern importance of "self-cultivation and family regulation and state governance and world pacification" continues to receive attention in previous research but most studies focus on theoretical discussions. The paper creates particular governance systems and theoretical concepts through direct application of Confucian principles which results in an example for building indigenous management theory.

The study develops a new management theory through its combination of Eastern and Western management perspectives which creates a unified approach for cross-cultural management. The paper creates an analytical framework through Western research findings on ethical leadership and transformational leadership and stakeholder theory which merge with traditional Confucian principles of self-cultivation and family regulation and state governance. The framework enables researchers to move past the standard research model which combines Western theories with local cases to achieve original theoretical breakthroughs.

The research identifies moral capital as the main resource which enables businesses to achieve enduring market advantages while explaining its operational process. The paper presents four mechanisms through which leaders' moral development produces organizational effectiveness in

its argument: demonstration, perception, trust, and resilience. Organizations reach competitive advantage through three main paths which include reputation effect and stakeholder trust and risk management when they build their moral capital. The analysis transforms ethical issues from normative discourse to strategic discourse which helps businesses understand the importance of ethical management (OpenAI, 2023).

The paper investigates corporate governance systems which operate inside companies but it does not discuss how businesses interact with their surrounding environment including markets and social and natural elements. Researchers should combine the ESG framework with stakeholder theory to study how sustainable leadership based on the kingly way addresses modern problems which include climate change and social inequality and digital ethics. Researchers should focus their studies on cross-cultural comparison because this approach shows promising research potential. What are the similarities and differences between kingly way-based leadership and Western concepts such as servant leadership, authentic leadership, and responsible leadership? The kingly way concept needs cultural modifications to fit different social environments. The discussion of these issues helps to improve the universal applicability of the theory and promote in-depth dialogue between Eastern and Western management wisdom.

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