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Ethics in Asset Restructuring

Li Jian & Wang Guoqing

Abstract: The restructuring of an enterprise's assets entails a process of reactivating the idle resources of amalgamated enterprises by means of purchase, liabilities, shareholding, transfer and resettlement. Its smooth operation calls for the guidance of corresponding concepts of ethics so as to make it an ethical endeavor, coordinate relationships, mobilize human resources and stimulate the initiative and creativity of the employees. These concepts include fairness, humanity, honesty and commitment. Their implementation depends largely on the ethical standards and disposition of CEOs.

Key Words: Enterprise asset restructuring, fairness, humanity, honesty, commitment

The restructuring of the assets of enterprises is a common practice in the global economy and an intrinsic requirement of large-scale, socialized process in production. The success or failure of the restructuring determines the growth of enterprises, economic prosperity, people's livelihood and social harmony. Rich, profound ethical values are embedded in the whole process of restructuring. These ethical concerns demonstrate the ethical standards of the enterprise, the ethical relationships between the amalgamating and amalgamated enterprises, and the ethical behavior of the enterprises, thus determining, to a large extent, the success or failure of the asset restructuring. The ethical considerations make an integral part of the social and economic theories and hence necessitate serious explorations.

It is essential to define enterprise assets and the restructuring of enterprise assets before the discussion of the ethical values of asset restructuring. We contend that the enterprise assets are the totality of

diversified resources that are lying idle but still have potential values. These resources include land, equipment, facilities, personnel and even brand names. The fundamental feature of the assets lies in their idleness, which means their potential values that are not brought into play as a result of being non-productive. Another feature of the assets is their diversification, which entails their categories and geographical distributions. The assets are also imbued with its feature of termination, which indicates that any enterprise will eventually decline and become non-productive as any living organisms in spite of its current size and strength. An enterprise's restructuring of the assets includes its purchase, liabilities, shareholding, transfer and resettlement of the assets of the amalgamated enterprises. This is a process of economic activity, which involves the complex transformation of the means of production. Through reorganization assets will be re-activated and re-allocated more rationally for the maxim potential use. Viewed in this light the reorganization naturally produces enormous productive power. As the amalgamator this process brings greater capacity, improvement of structure, more profit and speedier development. As the amalgamated, the process means the re-activation of idle assets so as to realize their potential values. During the process, differences, disputes and even conflicts naturally emerge among the social sectors impacted by the amalgamation. Viewed from this perspective, the restructuring of the assets constitutes a bilateral or multi-lateral confrontation. To ensure the effective restructuring, avoid confrontation and strive for a win-win it is vital to have not only the enforcement of relevant laws but also the guidance the concepts of ethics. With these guarantees the restructuring will be made ethical, relationships well regulated, resources concentrated and the initiatives and creativity of the employee promoted. These concepts include fairness, humanity, honesty and commitment.

Fairness should be practiced in all its ramifications as the first principle of ethics in the process of asset restructuring. The equation and unity of rights and obligations should be the most fundamentally fair requirement. We hold that human rights embody the "should have" of

human beings in their social lives and make the rudimentary ingredient of fairness. This theory can be traced to the early times of human civilization. Solon, the ancient Greek philosopher, put forward the idea of "giving one one's due" and equated the idea with fairness. Confucius, the great ancient Chinese philosopher, advocated the necessity of "thinking about righteousness or obligation with material gains"[1], which is in line with fair, legitimate rewards. It follows that in economic life, the right of human beings lies principally in securing their wealth and the opportunities for development, which they are entitled to. Their obligations constitute what they "should perform" in social life, which is a basic element in fairness, reflecting what the society expects of human beings in their multiple roles. In economic life, however, one's obligations are what one should do in line with one's economic role. Rights and obligations should be reciprocal, with one leading to the other. This makes fundamental principle of fairness. What is of paramount importance in the asset restructuring process which involves the reorganization of wealth and development opportunities is the necessity and practice of fairness, which is the reciprocity and unity of the rights and obligations of the amalgamator and the amalgamated. Neither can the obligations of the amalgamator and the rights of the amalgamated ignored, nor can the rights of the former and the obligations of the latter be overlooked. It is pivotal that the principle of fairness is observed to the letter in all aspects of amalgamation, such as capital evaluation, wealth distribution, employee reappointment and work procedures. What people complain the most in the asset restructuring process is precisely the "unfairness", which includes complaints about the standards in capital evaluation, the amount in wealth distribution, the personnel reappointment and the lack of due process. The solution to these problems lies in not only rules and schedules that fully embody fairness but also the impartial spirit of the parties concerned.

Humanity, a component part of ethics, displays understanding of, respect for, and love of people. These should likewise be made the ethical principles for the asset restructuring process. An enterprise's asset

restructuring must not by any means limited to the available materials resources. The essence of an enterprise's asset restructuring and the key to the success of the restructuring is, in the final analysis, the reorganization of the human resources. This means that it is vital to be "people-oriented" rather than "property-oriented" for an enterprise to restructure its assets. The "people orientation" makes the most fundamental value objective for asset restructuring. The question arises then: how should the personnel, particularly the employees of the amalgamated enterprises, be viewed and treated? Here let us draw the inspiration from the teaching of ethics by Confucius. Confucius teaches that "the benevolent loves people." [2] Only by cherishing the employees of the amalgamated enterprises can it be possible for the availability of job opportunities, for reenergizing their skills and for bringing into full play their zeal and creativeness. Without understanding, empathy and love the employees of the amalgamated enterprises can only be reduced to tools that will become disposable. Little will it be possible for the human assets to be restructured on the basis of human dignity. Confucius also states: "To establish oneself, one has to establish others; to achieve, one has to help others achieve." [3] This teaching advises us that in asset restructuring the objectives of the amalgamator must also be the objectives of the amalgamated; what the amalgamator sets out to achieve must likewise be achieved by the amalgamated. In other words, efforts must be made that the life of the amalgamated employees is not adversely affected and their job security is not endangered. In the Chinese context, this is the obligation of government authorities concerned as well as the amalgamating enterprises. In actual practice, however, it is not rare to see importance only attached to the restructuring of material resources, to the gross neglect of human beings, which often resulted in the accompanying, large-scale reduction of personnel and the marked deterioration of living standards of the affected employees. In fact, the restructuring of human resources will tremendously push the growth of enterprises. With the understanding of, respect for and love of the employee, especially those of the amalgamated enterprises, as well as the concern for their daily life and job security, the enthusiasm and creativity of

these people will be brought into play on an unprecedented scale, thus contributing greatly to the vitality of the new, reorganized enterprise. The survey conducted by the Chinese Denniler Corporation Group reveals that employees in the profit losing, government-owned enterprises contributed the best of their years to the nation and their enterprises. As they approach middle and old age they are laid off without secure, adequate housing, medical care and retirement benefits. By no means should these former contributing members of society be kicked aside during the reorganization. This makes it essential to go about the asset reorganization with affection and concern as well as justice and fairness. Let us have the Xi'an Textile Machinery Plant as case in point. The Group decided to have the premises of the factory as the location for low-cost real estate development. The Group built and provided 129 employees on file with an apartment each at the cost that is 20 to 30 percent lower than the actual cost. The Group also provided nine apartments for the retired employees who had acute shortage of living space. Moreover, the Group reimbursed the medical bills and paid for retirement premium in arrears for the factory's workers and employees. With these benefits the workers and employees of the factory that was annexed began to trust the private enterprise and became intimate friends of the Group. From the bottom of their hearts they chanted at a Chinese New Year party: "Denniler is our home." Identical models were applied for the reorganization of assets of other factories.

Honesty is also a major concept of ethics leading to the success of an enterprise's asset restructuring. Confucius advocates: "Honoring one's words is paramount in making friends." [4] This means that honesty is a principle of ethics that must be followed in human interactions. Zi Si, the grandson of Confucius, further elaborates: "Honesty is the way of Heaven; to be a gentleman, one has to be honest." [5] Obviously "honesty" is viewed as a Heavenly mandate and the pursuit and practice of "honesty" as fundamental for human behavior. It follows that honesty is the most precious ethical value and serves as a most reliable yardstick in the process of asset reorganizations. In the process, an enterprise has to grapple with a multitude

of challenges such as the relationship between the investors and managers of the two enterprises, the relationship between the enterprises and their banks and suppliers, the relationship between the enterprises and government organs concerned, the relationship between the two enterprises and the relationships between the employees within the two enterprises. Any neglect of the relationships can lead to the failure of the restructuring. Very often, failure to honor the promise, particularly on the part of the amalgamator, results in disputes, confrontations and the deterioration of the relationships. The success of asset restructuring depends on the harmony of all the relationships, which, in turn, depends on sincerity and honesty. Asset restructuring is intricate and complex as well as interlocking and consequential. Each and every procedure has to be accurate and true. One act of dishonesty will lead to the dishonesty of the end result, leading to catastrophes for the restructuring. Cases abound about one fake account ruining the whole restructuring endeavor. Consequently, honesty is key to the success of asset restructuring and how to ensure honesty becomes essential in asset restructuring. This calls for the establishment of a strict and workable system of social honesty, an effective and viable media supervision system and the strengthening of education for honesty as a virtue and code of conduct.

The commitment entails fulfilling social obligations to the best of one’s ability. This is true of both the amalgamator and the amalgamated, particularly the amalgamator. This principle reflects the inherent requirement for successful asset restructuring. Why is it necessary for enterprises to carry out their social responsibilities? Enterprises are not only an economic entity with independent accounting but also a social organization with intricate links with different other social sectors. Its restructuring process invariably affects the interests of its employees, financial institutions, local communities and government organizations. The enterprise is obliged to effectively coordinate the relationship with these interested parties and see to the reasonable satisfaction of the interest of these parties. Any attempt to give up the responsibility for the sole interest

of the enterprise is bound to worsen the environment for the restructuring and lead to its failure. This testifies to the necessity of enterprises shouldering social responsibilities in its restructuring process. In this respect it is undeniable that there are people who pay little attention to or even negate their social responsibilities, but the majority of enterprises are clear and positive about the responsibility and commit to their obligations.

However, people differ as to how they should carry out their social obligations. Some hold that as long as taxes are paid with successful asset restructuring their social obligations or responsibilities are fulfilled, while others contend that social responsibilities encompass more than just paying taxes. Support to the employee development, financial growth, community activity and government work should also be included in the responsibilities. We concur with the latter and emphasize that performing the social responsibility is a dynamic process and a systematic project which must be understood and conducted from a higher level and functional perspective. We maintain that fulfilling its social responsibilities is an essential prerequisite for the self-development of the enterprise. Social responsibility should not be viewed as a burden, but a condition and assurance for the success of the asset restructuring. Measures should be taken to integrate social responsibility with asset restructuring for the active fulfillment of the obligations. It is essential to fulfill social obligations for the success of the corporate restructuring. Only with the safeguarding and promotion of the interests of all parties concerned can the asset restructuring gain extensive support and assistance by the employees, financial institutions, local communities and government organs for the success of the restructuring. It is obvious that fulfilling social responsibilities in its asset restructuring kills several birds with one stone – honoring the principle of ethics, contributing to social development, ensuring the success of the restructuring and promoting self-development. In addition, the fulfillment carries on and promotes the ethical tradition characteristic of traditional Chinese culture, which advocates that “Every common person has his duties for the destiny of the nation.”

During asset restructuring, the ethical concepts and principles discussed in previous paragraphs must be put into practice and translated into the ethical behavior. This is because these concepts and principles embody the requirements for benevolence, which is basically a desired practice. We hold that a variety of factors determine the implementation of the concepts and principles, as well as the execution of social responsibilities on the part of enterprises. One of the most crucial is the ethical standards and disposition of CEOs, who have the power to orient the market and map out development strategies. And they have the control of the most critical competitive edge of the enterprise and its major resources.

From a historical perspective, views of and comments on CEO are markedly divergent. On the one hand, CEOs are regarded as born innovators, capable of destroying the old and creating the new. CEOs are considered in this light to be a motivating force for social progress. On the other hand, CEOs are viewed as personification of capital with the bent for the unscrupulous pursuit of profits. “A 50 percent profit margin would lead to a reckless move, a 100 percent to trampling under foot all the laws, and a 300 percent to committing any crime, even if it means the loss of life.” It is also alleged that business executives are a group of thieves and swindlers.”

If we accept the first view, the asset reorganization will become natural and smooth. Empowered with innate attributes the CEOs will be able to bring to fruition all aspects of the asset reorganization including not only the realignment of material resources and the laws and regulations proven to be effective but also human resources and their ideas and management expertise.

If we accept the second view, the enterprise asset restructuring will fail, because the CEOs are by nature inhumane. They are unable to restructure and take advantage of ethics and resources. Owing to the lack of moral codes of conduct the reorganization will follow a wrong rack and head to failure.

As a matter of fact, CEOs are neither saints and super-people nor devils and swindlers. They are human beings with double personalities,

playing a vital role in enterprise development and social life. They have the impulse to pursue and create profit with the capital at their disposal as well to break away from the bounds of law and morality. Under well-established institutional and cultural circumstances they will be rational, law-abiding and moral. We have every reason to believe that as long as the CEOs exert themselves, bring their wisdom and talent into full play and strive for higher ethical standards the asset reorganization will succeed in both business operation and ethics pursuit. It should be cautioned, however, that no asset reorganization will succeed of its own accord.

In conclusion, we believe that with the ethical values becoming obvious and playing an increasingly significant role the asset restructuring across the globe in the 21st century will effectively tackle the inherent conflicts and confrontations and keep moving forward with the guidance of desirable ethical standards.

Reference

[1] Confucius. ***Analects of Confucius***
[2] Confucius. ***Analects of Confucius***
[3] Confucius. ***Analects of Confucius***
[4] Confucius. ***Analects of Confucius***
[5] Zi Si. ***The Doctrine of the Mean***

Brief introduction to authors

Li Jian, professor of Shaanxi normal university, director of Shaanxi normal university enterprise culture research center. Research domain includes ethnics, economy ethnics, enterprise culture. These years, professor Li set up some characteristic research task which these enterprise commission. Professor Li has some important pluralism including standing director of China Ethic Institute, chairman of Shaanxi Ethic Institute, vice chairman of Shaanxi Enterprise Culture Research Institute.

Wang Guoqing, chairman of the board of Shaanxi Denniler Corporation Group. Mr. Wang has some important pluralism including deputy to the Xi'an Peoples Congress,

vice chairman of Xi’an Enterpriser Institute. Mr. Wang is also the author of many academic literatures include ***Existent Fortune, The Art of Business*** and ***The Principle of Business***.