

# Business Expansion and Structural Change in Pre-War China

Liu Hongsheng and His Enterprises, 1920-1937

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The image shows the Chinese characters for '香港大學' (Hong Kong University) written in a highly stylized, square-format calligraphic style. The characters are arranged vertically from top to bottom: '香', '港', '大', '學'. Each character is contained within a square frame, and the overall composition is balanced and aesthetically pleasing.

Hong Kong University Press is honoured that Xu Bing, whose art explores the complex themes of language across cultures, has written the Press's name in his Square Word Calligraphy. This signals our commitment to cross-cultural thinking and the distinctive nature of our English-language books published in China.

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— Britta Erickson, *The Art of Xu Bing*

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## Chapter 1

# Introduction

In the last 25 years, China has witnessed a period of rapid economic development. Not only has trade grown, foreign direct investment increased, and the number of factories multiplied but the institutional framework for business has also begun to alter. From the 1980s on, the government introduced new laws on 'companies' or 'corporations', allowing gradually the confirmation of private ownership and a corporate form of business organization.<sup>1</sup> With the introduction of the stock exchange in the 1990s,<sup>2</sup> China's business environment seemed to have turned the clock back to pre-1937 days, with most similar institutions standing side by side with Chinese businessmen.

History has often been employed to draw analogies, or even lessons, from the past for solutions to problems of the present. However, history is also full of irony. In the mid-1950s, when enterprises were leaving private ownership for nationalization, Chinese businessmen of that generation seem to have become a bygone era, and reportedly expressed their joy and happiness. One of these businessmen is the main character of this book; Liu Hongsheng, known as O. S. Lieu<sup>3</sup> in the pre-1949 period. On 4 October 1956, a mainland Chinese newspaper published an interview passage which summarized the life story of a dying businessman, Liu Hongsheng, who expressed his goodwill and pride at witnessing his enterprises going through the process of nationalization.<sup>4</sup> In this interview, Liu sketched his reasons for supporting the Chinese Communist Party. These included oppression from bureaucratic capitalism of Chinese Nationalist Party's leaders, the penetration of economic imperialism from Western countries, as well as the policies of the Chinese Communist Party in encouraging and promoting Chinese industry and business. For his support of the CCP, he was referred to as a 'national capitalist' (*minzu zibenjia*) in the passage and remains so named in subsequent mainland Chinese publications.<sup>5</sup>

Paradoxically, the passage also reveals a self-proclamation of a Chinese businessman's success story in the early twentieth century. 'By the age of forty some,' as Liu himself proclaimed, '[I] had already become a nationwide famous entrepreneur who possessed quite a number of [industrial] enterprises.'<sup>6</sup> In fact, not only was he the major shareholder of China's largest native-owned match-manufacturing enterprise (and for that he was called 'China's king of matches') but also of a huge wharf operation and coal distribution network in the Lower Yangzi region before the outbreak of the Second Sino-Japanese War in July 1937. His major investment also spread to coal mining, coal briquette making, banking, woollen-textiles, and Shanghai's only cement factory. His name appeared on either the top management or board of directors in most of these enterprises. These achievements credited him as one of the 'industrialists' (*gongyejia* or *shiyejia*), a group of people important to 'the order of the day' in China of the early 1950s.<sup>7</sup>

The story of Liu Hongsheng's success in business, similar to other Chinese businessmen, has attracted scholarly and non-scholarly attention. One of his sons wrote about his beloved father, portraying him as an 'industrialist'.<sup>8</sup> Two biographers wrote about him, and a group of scholars catalogued his archives and selected some of the documents for publication.<sup>9</sup> Some others have used him and some of his enterprises as cases for understanding business strategies<sup>10</sup> and 'managerial thought'<sup>11</sup> in the late nineteenth and early twentieth century Chinese business. Recently, Sherman Cochran has even used one of Liu's enterprises to examine the adaptation of corporate hierarchies in modern China.<sup>12</sup>

This book is interested in the expansion of Liu's business empire. However, it does not concern itself about his whole life story up to his death, as his sons, biographers, or the compilers and scholars who had catalogued his archives did. Despite the fact that these people might have insider's stories, unfolded sources or documents, or supplementary notes, they basically followed the themes, reasoning, and interpretations having been put forward by the interview of Liu Hongsheng in the 1956 newspaper passage just mentioned — a 'national capitalist' after all. Nor does this book concern itself with the expansion of *all* of his enterprises. Some of them (such as his native banks) did not always expand. Some might be very short-lived (such as some of the investment fund projects). Some of them simply did not leave much record in the archives for reasons unexplained (such as the woollen textile enterprise). Instead, this study pays special attention to the expansion of his major business enterprises (coal distribution and wharf operations, cement making, banking and finance, and match-manufacturing) for a particular issue, in which business expansion serves as an important condition for observation: the development of Chinese business institutions.

Why does institutional development matter? The multifarious outlook of Liu's businesses, similar to those of other prominent Chinese businessmen of his generation or earlier, certainly raises scholarly attention by asking some basic questions. How could he manage to uphold these different lines of business together? In fact, the various businesses of Liu, in a sense, resembled an empire in medieval Europe.<sup>13</sup> Each domain existed as a separate entity under one sovereign. Yet, unlike the medieval rulers in Europe who ruled different domains by oath, allegiance, and force, how did Liu manage to run his own business empire? What arrangements or rules were employed to achieve the expanding scale and scope of his business ventures, running a business empire outside the realm of one entity? Or, in a more sophisticated fashion, what kind of institution did Liu adopt in operating different enterprises? Given that most of his enterprises had taken the company form of organization with limited liability, how did he manage to run them institutionally? These questions are raised not only because of their implications for current business operations but also for their significance in understanding Chinese business development.

Modern China's business development has been studied in the light of exploring distinctive features that can be characterized as Chinese, as distinct from other countries such as European, American, or Japanese. For this, different observations have been suggested. One group of scholars, such as Gordon Redding and others, has attributed the success and failure of Chinese business to a uniquely Chinese ideology; loosely and misleadingly described as 'Confucianism'. This view, elaborated, sees the Chinese people as inheritors of a tradition that emphasizes co-operation within the group, relies on compromise and persuasion rather than the legal process in the settlement of disputes, and teaches the cultivation of interior goodness as a means whereby the individual fits into society. The society that emerges from this tradition is said to be one which is strongly hierarchical, encourages passivity in individual action, and venerates the past rather than anticipating the future. In other words, this view stresses cultural attributes as an explanation for Chinese behaviour.<sup>14</sup>

Some scholars of this cultural explanation take a step forward to point out the importance of networks and networking in Chinese business development, as in contrast to the hierarchical form of organization developed among Western and Japanese firms. Accordingly, business expansion followed the building of networks of the businessman over his partners, his commercial allies, and even over his staff, sales agents, and workers. Understanding the businessman's family and lineage relations, marriage, origin of native place, colleagues and friends, and interlocking directorship among firms, and so on, have been regarded as imperative in understanding the subject of Chinese business and business history.<sup>15</sup>

These attempts somehow seem to be running opposite to the line of thinking in what Alfred D. Chandler, Jr., has demonstrated in the American business experience. Chandler argues that American entrepreneurs and organizations made a series of investments in technology, marketing-distributing networks, and management, all of which led to modern business enterprises with an integrated managerial hierarchy of professional salaried managers. In other words, the early stages of industrial development witnessed the family firm under a single head which might still be capable of financing and managing the industrial establishment. Yet, as the market expanded, competition intensifies and technology advances, the growth in scale and scope necessitates large amounts of capital and managerial methods capable of organizing a large number of different units under a central command.<sup>16</sup>

Chandler's critics have raised questions that his thesis overlooks or ignores, including the political dimension, the legal framework, educational setting, cultural orientation, gender division, and despising of family business and non-vertically integrated, non-hierarchical form of business organization.<sup>17</sup> Some other critics further argue that Chandler's thesis does not concern itself with inter-firm relationships and co-ordination (social and organizational), and the possible contributions of those relationships to his theoretical construct.<sup>18</sup> Some others even resist Chandler's paradigm by looking at the social implications of the inter-firm relationships, or, turning to the social network analysis as outlined above.<sup>19</sup> For these scholars, a socio-cultural dimension must be added to the study of the economic entity of the 'modern business enterprise' as Chandler portrayed.

Insightful these perspectives may be in our understanding of the subject, the ready explanations have sometimes overshadowed our further explorations into the internal logic of the workings of Chinese business in the modern period. These perspectives also suffer from their own theoretical shortcomings. The perspective of networking is a case in point. According to this perspective, the rise and decline of Chinese business empires depend upon the making, maintenance, and manoeuvring of networks. Yet, all the network categories which have been employed in previous studies (such as family and lineage relations, marriage, origin of native place, schoolmates, colleagues, and friends), cover almost every possible social relation. Moreover, social network seems to be invariably important through time, seemingly without a dynamic dimension in terms of the changing social relations and institutions. Some scholars even argue that 'entrepreneurs all around the world typically rely on networking and network organizations to gather capital, co-workers, and connections,<sup>20</sup> making themselves sound either universally true or tautological. The network analysis also implicitly or explicitly distinguishes between networks and corporate hierarchies as two

separate entities. That obscures other aspects, such as interaction between the two.<sup>31</sup> Putting too much emphasis on the issue of networking, similar to that of corporate hierarchies, would therefore hinder our understanding of other important issues in the history of economic life.

Some other scholars discuss Chinese business and economic development by examining the role of the state. The imperial state, according to these scholars, governing through the mediation of the gentry class, consistently showed itself to be anti-business. From the fifteenth to the nineteenth centuries, its anti-business attitude was most strongly exemplified in the rigid control imposed on maritime trade and the near monopolistic tendencies exerted on mining and various other areas of industry. When the state failed to maintain its monopoly, its control declined into a series of taxes which, though small in amount, provided ample opportunities for eunuchs and officials to extort merchants who were ill-prepared to stand up for their own interests. Taxation, mismanagement, corruption, and a lack of appreciation for business characterize this view of the imperial state.<sup>22</sup> This view sees the problems which endure in subsequent republican governments.<sup>23</sup>

However, arguments on whether the state was oppressive or supportive<sup>24</sup> to business development can be illusory. Representation and expression of the state and its power can be seen as narrowly as the government bureaus or as widely and down-rooted as in a single coin.<sup>25</sup> Hence, depending on where one might choose to target one's criticism, one may find that these views fall short on specific analysis. Susan Mann, William Rowe, Gary Hamilton and others have documented specific instances where Chinese merchants were able to defend what they considered their rights against excessive imperial demands.<sup>26</sup> David Faure, among others, has pointed out that whatever the ideological underpinnings, traditional Chinese institutions (including the state and its political patronage) were conducive to business and economic growth.<sup>27</sup> In short, to argue whether the Chinese state as such was a strength or a weakness is too bland an analysis.

This study does not deny the importance of the state, social networks, or Chinese culture in Chinese business but doubts their applicability and explanatory power. In return, it calls for exploring the development of economic institutions in China. As Douglass North has defined, 'institutions are a set of rules, compliance procedures, and moral and ethical behavioural norms designed to constrain the behaviour of individuals in the interests of maximizing the wealth or utility of principals.'<sup>28</sup> By this, economic institutions include not only the market, nor just the firm, but also other sets of rules which govern people's behaviour in economic activities. To study institutions, therefore, requires the observation, analysis, and understanding of both the individual's and individuals'

behaviour and the rules behind them. By studying the institutional developments and changes, one would also be able to examine the structural change in the economy. These are no less important than knowing who was connected with whom and what kind of ideology they had.

In fact, the study of institutional development in Chinese business has attracted recent scholarly interest. David Faure, Elisabeth Köll, Sherman Cochran, William Kirby, Zhang Zhongmin, Linsun Cheng, Robert Gardella and Madeleine Zelin, among others, have been working on the development of different institutions in Chinese business: the family, lineage, the factory, corporate hierarchies, company law, modern banks, and even the contract.<sup>29</sup> This case of Liu Hongsheng and his enterprises serves as an important example for our understanding of one aspect of institutional arrangements in Chinese business — how to manage and uphold an expanding business empire? Besides elements such as social networks and personal quality, was there any institutional devise to achieve this goal?

This present research adopts a case study approach, which is not new to Chinese business history. When Chinese historians have looked for 'typical' examples of 'Chinese capitalistic enterprises' from the 1950s on, many case studies have been produced which should be familiar to students of Chinese business history. Besides Liu's, these include the Shen Hsin (Shenxin) Cotton Mills, the Dah Sheng (Dasheng) Cotton Mills, the Heng Foong Cotton Manufacturing Company, and the Wing On Textile Manufacturing Company in cotton-textiles; the Mao Hsin (Maixin) and Fu Hsin (Fuxin) Flour Mills in flour milling; the Oriental Engineering Works in machine-tool making; and the Wing On Company's department store.<sup>30</sup> Some other case studies, such as those of the Chee Hsin Cement Company and the Nanyang Brothers' Tobacco Company, which were written by Western historians, benefited from source materials of these enterprises compiled by Chinese historians looking for 'typical enterprises'.<sup>31</sup>

It is not totally clear why Chinese historians regarded these enterprises as typical. Yet, a general overview reveals that these enterprises mostly started during the late nineteenth and early twentieth centuries, operated mainly in the modern sector in the coastal treaty port areas, enjoyed a considerable degree of expansion, and possessed a complex relationship with the Chinese state. These enterprises also diversified while expanding the original business, and developed either as well-established enterprises or as the largest enterprises in their respective industries before the communist takeover in 1949.

These studies show not only the company organization as a dynamic force of business development in China, but also the family as an important instrument in Chinese business enterprises. The founding fathers and their family members

were strong on management and equity control, while business expansion went hand in hand with their adoption of the joint-stock company structure. For instance, the Rong brothers set up their first flour mill in their hometown, Wuxi, as a partnership but quickly turned it into a joint-stock company after the promulgation of the 1904 Company Law. Throughout the republican period, when they continued to expand their flour business by establishing the Mao Hsin and Fu Hsin Flour Mills, and to diversify into cotton milling by establishing the Shen Hsin Cotton Mills in Shanghai and elsewhere, the Rong brothers continued to adopt the company organizational structure, but they themselves were the principal shareholders and managers.<sup>32</sup> Shortly after the Guo brothers started their department store in Hong Kong in 1907, they also incorporated it as a joint-stock company, and while expanding their businesses to Shanghai, formed joint-stock companies there as well. These businesses, including a department store and some cotton-textile factories in Shanghai, an insurance company, some restaurants and a bank, were mainly owned and run by members of the founding family.<sup>33</sup> Similarly, when the Jian family founded their Nanyang Brothers' Tobacco Company in Hong Kong in 1905 and branched out to Shanghai in 1918, they also took the company structure until they sold their shares to outsiders in the mid-1930s.<sup>34</sup> It thus may not be surprising to see Marie-Clare Bergère, who analysed the history of the 'Chinese bourgeoisie' between 1911 and 1937 on the basis of these case studies, asserting that 'family solidarities gave the emergent capitalism flexibility, dynamism and buoyancy when faced with crises'.<sup>35</sup> What seems to be still not understood is the impact of various other Chinese business institutions on the structure of business. Beyond the persistence of the family, what changes took place in Chinese business expansion during the republican period?

This study examines the case of Liu Hongsheng and his enterprises by making the assumption that to manage intensive capital investment or an extensive investment portfolio, it is necessary to have a kind of complex and coherent organizational structure. Nonetheless, we attempt to explore not only any organizational and managerial arrangements as Chandler has demonstrated, but also other functional arrangements for the purpose of business operations. In particular, this study focuses on business finance and regards finance as a crucial element in business operations. Although capital can be interpreted as a means representing social relations,<sup>36</sup> it is also a basis for rational, costs and benefits, calculation. To understand business operations, therefore, the flow of capital and financial resources must be examined and identified. After all, hard calculations and cunning business devices must constantly be an important part of reality in business life.

This study also takes into consideration the institutional context within which businesses operated. It follows the postulate of Leslie Hannah that institutional changes at the macro-level, such as the law, the financial market, and so on, also had a bearing on the internal changes in enterprises.<sup>37</sup> To identify structural changes in institutional arrangements at both enterprise and businessman-enterprise levels, it would therefore be necessary to explore the broad institutional context at macro-level which would also affect the internal workings of Chinese business.

As we shall demonstrate through the following chapters, instead of adopting a Western-style corporate form of organization, Liu employed a rather traditional institution, namely a '*zhangfang*', or accounts office (which was called Liu Ong Kee in this case), in upholding the various domains of his business empire. The accounts office's function was not only secretarial and accounting, it was also financial. By this institutional device and its ability to finance his business ventures, Liu was able to maintain the holding structure of his various businesses throughout the period under review. In other words, if there was any institutional device to be identified between the businessman and his enterprises (or companies), that would be an accounts office, or its equivalent.

To examine such an institutional development, this study sets the time frame from 1920 to 1937. In so doing, it aims at focusing on the issue in peace-time economy. Despite the fact that those years still witnessed a number of national, regional and local conflicts in China, they certainly constituted a period contrasting greatly with the days after July 1937, with wartime mobilization on the one hand, and military occupation and collaboration on the other.<sup>38</sup> The pre-1920 period is certainly important to our investigation but documents in the archives do not allow us for such an inquiry, as most of the primary documents can be traced back as early as 1920 only. On the other hand, most of Liu's businesses began in 1920, providing a convenient and reasonable point of beginning.

Chapters that follow will be divided into six. Chapters 2 and 3 outline both the historical and institutional background for Liu's business operations, and the overview of his business activities. In these chapters, the crucial issues include the institutional context for and the issue of expansion in Liu's businesses. The issue of institutional change within the enterprise / company level is addressed in chapters 4 to 6, by looking into the four main lines of businesses of Liu: coal-distribution and related wharf operations, cement-manufacturing, and the production of matches. Three institutional developments will be examined in these chapters: the comprador system which involved changing Sino-foreign business relationships; the corporate form of organization which covered the



internal organization within the given legal framework; and the triangular relationship between the firm, the market, and the state which touched upon the institutional arrangements in marketing and handling market competition. Since all these lines of businesses existed throughout the 17 years under review, these three chapters will individually tackle the issues within their own institutional framework for the whole period. Chapter 7 focuses on the issue of business finance, examining the institutional difference between private funding through accounts office and modern banking. The implications of these institutional changes are brought back to discussion in a broader context in the conclusion.

The launching of an in-depth study on the issues concerned cannot be made possible without access to appropriate documents. In this study, I have benefited from archives available in the Resource Center for Chinese Business History, Shanghai Academy of Social Sciences. These documents cover both individual company records and those of the accounts office. Additional documents have been found in the Bodleian Library, Oxford, on business letters (the Nathan's Papers) concerning the Kailan Mining Administration (hereafter as KMA), Liu Hongsheng's principal in compradorship. Some additional source material, especially company registrations and trade association records, came from the Shanghai Municipal Archives<sup>30</sup> and the archives of the Institute of Modern History, Academia Sinica, Taipei. These various archives provide solid documentation for this current research.

The goal of this study goes beyond problem-solving for the present. By identifying the complex institutional arrangements and development in Chinese business, it aspires to make a modest contribution to our understanding of broader and complex historical change in modern China. It is therefore hoped a better understanding of 'Chinese business culture' will be forthcoming.

## Chapter 8

# Conclusion

## *Zhangfang*, Nucleus of Chinese Business

This study examines the relationship between business expansion and the structure of business in pre-war China through a major case study, Liu Hongsheng's enterprises during the 1920s and 1930s. In particular, it asks what kind of structural changes would have taken place in Chinese business in expansion in the institutional context of republican China. In answer, it shows that, despite radical expansion in both scale and scope, and despite major changes in the business environment, including the transformation of the comprador system, the implementation of the company law system, and the emergence of a new government policy in business organization (or merchants' associations), the holding structure of Liu's enterprises remained unchanged between 1920 and 1937. He remained the largest direct shareholder of his major enterprises, with shares in his personal name. Nor was there any holding company as such ever organized to come between himself and his enterprises. Nor was there any delegation of investment authority; Liu personally ran his investment, with at most his brother at his side. The Chinese businessman would have put this feature of his investment down to personal trust, but one might equally characterize it as a lack of trust of people outside the family. Had Liu's children been older in the 1930s, one might have seen the possibility of a development in the management of investment decisions. As it was, while his children were mostly being educated abroad, Liu ran an investment empire with assets amounting to about 34 million yuan in the mid-1930s mostly on his own. For the most part, he kept close watch over his investments by personally assuming senior managerial positions in his businesses, and he depended on a small accounts office for administrative help.

Nor did his core business institution, his accounts office, transform its role from concerning both secretarial and financial matters behind the enterprises to

other directions. Although the ways Liu dealt with competition and the corporate form were affected, these shifts were not fundamental to the internal structure between Liu and his businesses. There was no extension of managerial hierarchies in his businesses, for the founder continued to be personally involved in the management of all his enterprises, as he personally assumed senior administrative positions in his businesses.

Close scrutiny of the accounts office's operations shows that it operated somewhat like a bank for Liu's business financing, holding deposits for his companies, and offering them trade credit. It also raised loans on the strength of Liu's assets to lend to the enterprises. In this sense, the linkage between Liu and his enterprises was not manifested in a managerial structure but in a series of financial transactions and dealings, or connections, that included share-holding, trade finance, and lending from his accounts office. This kind of linkage gives the appearance that the different domains of the business 'empire', different enterprises of the proprietor, were only loosely linked, but the institutional connections behind them were strong.

The financial connections between Liu Hongsheng's enterprises and his accounts office (and later his bank) lead one to think that the Chinese businessman was a financier in the fullest sense. Though costly it was, capital was highly mobile for circulating to needed outlets of investment and production. One might even say that the flexibility and strength of Chinese business rested upon the financial connections between the businessman and his enterprises that were built on his ability to mobilize funds. Unless his financial capacity was stifled by a crisis in the financial market, the Chinese businessman would be able to maintain the structure of his businesses in the same way as he had run them at the beginning of expansion.

### *Zhangfang* and business finance

Observations from the case of Liu Hongsheng and his enterprises as described in the previous chapters and above may raise a question on how typical that was in Liu's period. This is a difficult question to answer. Given the size of the country and the high degree of divergence in different regions and provinces in environmental, social, economic, institutional, and even cultural settings, a single case from Liu would certainly not be sufficient to explain the structure of business growth and management in *all* modern Chinese businesses. More research is needed to re-evaluate the basic layout, institutional changes, and structural transformation of other Chinese business enterprises. However, this study has

argued that business finance was a decisive factor in causing structural changes in republican Chinese business. This study has also demonstrated the existence of a strong institutional connection between the Chinese businessman and his business empire, his accounts office, or *Zhangfang*. These experiences were shared not only by Liu Hongsheng's enterprises but also by other expanding businesses in China at varying degrees. The following paragraphs will provide a brief survey of major examples of republican Chinese business empires in a comparative perspective in support of this argument. These examples reveal the paramount importance of finance in the upholding of the managerial and holding structure.

The first example is the Rong brothers of Wuxi. They had begun their businesses in flour- and cotton-milling in the 1900s and expanded rapidly in the 1910s and 1920s by raising loans from modern and foreign banks, as well as ploughing back profits by continuing to re-invest and increasing capitalization. Based on this financial power, together with the opportunities given by the 1910s, the Rong brothers made a success story in that decade and beyond. By the 1920s, they commanded around 12 flour mills and nine cotton mills in four Chinese cities, holding the lion's share in the market of both products, and were nicknamed 'flour king of China' and 'cotton king of China'. What is intriguing in the example of the Rong brothers' enterprises is that they channelled these financial resources into their factories through the institution of the 'headquarters company', the 'Maixin-Fuxin-Shenxin Headquarters Company' (*Maixin-Fuxin-Shenxin Zonggongsi*). Although not a holding or a parent company of the various factory-companies in flour- and cotton-milling, the 'headquarters company' played the role of an in-house bank for the companies, a role similar to Liu Hongsheng's accounts office to his businesses. Accounts accrued from the archives reveal that surplus funds from some of the Rong's companies were deposited with it which also lent the funds to other needed companies owned by the Rong brothers. These financial arrangements allowed them to maintain their managerial leadership until the 1930s when the depression set in. Pressure from the banking consortiums of the cotton mills forced Rong Zongjing, who had been the general manager of his mills for two decades, to step down and to accept management under the consortium. The 'Fuxin Group' of the flour mills was also reported to have achieved a considerable degree of independence by setting up their own 'headquarters company'.<sup>1</sup>

In another well-known case, the Guo brothers of the 'Wing On Group' began to seek their fortunes overseas by selling fruits in Sydney, Australia. In the 1900s, they moved into the department store business in Hong Kong which inaugurated their business empire of merchandizing in Sidney, Hong Kong, Guangzhou, and later in Shanghai. Together with their business in overseas

Chinese remittances, the Guo family branched into hotel and insurance (life and fire), manufacturing (cotton mills in Shanghai), and into banking by setting up their 'Wing On Commercial and Savings Bank'. They did not provide all the capital but a decisive majority of stocks was enough for them to maintain managerial leadership. Cross-enterprise share-holding among the different branches of the Guo family's business empire further guaranteed their control over the decision-making. However, similar to the Rong brothers and Liu Hongsheng, the Guos channelled funds behind all these multifarious operations in support of their management. The Wing On Company's 'finance department' (*yinyebu*) channelled financial resources to other companies in the manner exactly as the Rong brothers' 'headquarters company' or Liu's accounts office did. Under the financial pressure of the 1930s, the Guo family, which had been able to raise capital via internal banking, had to seek a huge bank loan and to place the bank's representative on their companies' board.<sup>2</sup>

The Jian family of the Nanyang Brothers' Tobacco Company, the leading Chinese-owned cigarette-making firm in republican China, reveals a slightly different story in terms of the institutional arrangements for financing the business empire. The family won their fame for the successful launch of marketing and advertising strategies against a foreign rival, the British-American Tobacco Company. At its peak of success, the family controlled factories in Shanghai, Hong Kong, and possessed sales branches, offices, agents in South China and Southeast Asia. Their story differs from the case of Liu Hongsheng and of the Rong brothers in two ways. Firstly, the Jian family concentrated almost on one line of industry — cigarette-manufacturing — since the 1900s, while the others ventured into many others. Secondly, besides bank loans, they raised funds from the public by issuing shares in the open market. The Jians managed to maintain their managerial positions within the company by upholding decisive amount of stocks. Yet, similar to the Rongs and the Guos, such position ceased to maintain in the 1930s when financial crisis of the company arose. In this crisis, the Jian family was forced to sell off a considerable portion of their shares in the company to an outsider and retained the post of director that had no exclusive power in decision-making.<sup>3</sup>

The accounts office even played a significant role in the financing and management of a famous regional enterprise, Dasheng Cotton Mills in Nantong under the leadership of a late Qing scholar-official, Zhang Jian. Setting up in the late nineteenth century, Dasheng has been regarded as one of the earliest industrial enterprises adopting 'corporate structure' by issuing stocks to the public (i.e., non-family members). Within this enterprise, there was an accounts office through which, as demonstrated by Elisabeth Köll, 'Zhang Jian centralized

financial and major managerial decisions and separated them from the day-to-day business in Nantong and elsewhere.<sup>5</sup> However, when business turned unfavourable and debts mounted up in the 1920s, the accounts office came under serious attacks from shareholders.<sup>6</sup>

The accounts office itself was indeed not a creation of the modern Chinese businessmen. We can find its ancestors or equivalents as early as in the Yuan Dynasty.<sup>6</sup> By the early twentieth century, the accounts office was a ready institution, or part of the business heritage or tradition, for most Chinese businessmen. What made the accounts office or its equivalent bestow on a new meaning in business financing was possibly the new social context and business environment in the early twentieth century. Novel business institutions, such as company law and company organization, modern banks, stock exchange, and so on, which were introduced into the country in the late nineteenth and early twentieth centuries, required economic operations within these institutional settings to become 'open', 'transparent', and 'accountable to the public' for the protection of the 'public' funds. This envisaged a new social expectation in business operations of the republican period. Merchants who were used to channelling funds among different parts or branches of their businesses would therefore have found themselves the responsibilities and expectations embedded with these new institutions. For them, there would possibly be no difference between their old 'shop' and their new 'company'. For the social observers of their age or modern business analysts, the financial arrangements through the accounts office can be fully described as 'in-house banking'.<sup>7</sup>

Secretive as they were to outsiders, enough to draw charges of financial embezzlement, such kinds of operations certainly invite criticisms on corporate governance but that would require more than the discussions lightly provided here. What this study has suggested are concerns with no more than an empirical observation: Chinese businessmen of the late Qing and early republican period made use of a traditional institution, the accounts office, to finance their business and to uphold their managerial leadership over their multifarious enterprises. It also provided secretarial support for correspondence between the businessmen and their different enterprises. It might lack the administrative and organizational vigour as in Western business enterprises in modern times but it was certainly an important institution for understanding Chinese business.

The accounts office as a core institution for Chinese business indeed provides a new perspective on the study of its nature. It has been suggested that Chinese society, in which businesses operate, is 'networked' in nature. Networks and networking of individual businessmen, as well as of groups of businessman, have always been regarded as the fundamental workings of Chinese business.

Accordingly, Chinese business is seen as no more than a loose alliance of individuals, upon which trust generates, and management runs; it rises and falls as networks change and alter. However, this study has demonstrated the fact that the vitality of the Chinese business empires in the republican period rested upon the financial workings of the accounts office. It financed the businessmen's different ventures, incorporated or not. It directed the needed funds for their daily operations and long-term expansion. In a sense, it might even argue that it financed the 'networking' of Chinese businessmen. Therefore, what was behind Chinese business networks was not simply personal trust and social relations, it included a highly institutionalized system of financing through the accounts office. The housing of the boss's accounts, correspondence, and personal photos in the accounts office may even lead one to think that it embraced both financial power and social networks in the making and running of the Chinese business empires.

Then, what was the nature of the accounts office? Was it a personalized institution of which its rise and fall depended on the natural death of its boss? What was the relationship between the accounts office and the family? Despite the fact that we can observe its existence and vitality through this case and other studies, the details of its workings, internal logic, and nature have yet been fully investigated. Even the ending of the Lieu Ong Kee Accounts Office itself cannot be clearly explained; whether this was a result of the death of Liu Hongsheng in 1956 or because of the process of nationalization of Liu's enterprises, one cannot tell.<sup>8</sup> What we can document is that, in the archives of the accounts office, one can find books covering the financial details of its boss and of his family while he lived, almost down to the negligible. It also houses correspondence from business, family and friends, as well as family photos. In that sense, as personalized as the accounts office might look, it certainly was an *institution* of primary importance to the Chinese businessmen.

The importance of the accounts office for the financing of republican Chinese business suggests an alteration on the conventional wisdom of viewing people of that generation who invested in industrial enterprises as 'industrialists' (*shiyeyǎ* or *gongyeyǎ*). Indeed, industrialization and the quest for wealth of the country had been an enduring project in the late nineteenth century. In the twentieth century, industrialization became 'the order of the day', something the Chinese must achieve. People, including businessmen, sometimes made public statements along that line of thinking. Yet, the businessmen of the first three decades of the twentieth were probably no different from their counterparts in the earlier centuries in the use of traditional business institutions (accounts office, the family, and social networks). They also saw no difference

between the capital for merchandizing in the earlier generations and that for industrial investment in theirs. For them, capital was a liquid resource transferable from one sector to another, moving into different kinds of investment once the opportunity came and potential returns seemed handsome. The businessmen themselves did not necessarily possess knowledge or profession in the actual day-to-day management.

## Institutions and business culture in republican China

The upholding of the holding structure in republican Chinese business raises the question of the significance and relevance of the institutional context that businessmen were entangled in. Indeed, recognition of the importance of the accounts office in the making of modern Chinese business seems to suggest that institutions governing the running of businesses in the economy at large might bear no significance at all. Nonetheless, this study has also demonstrated that changes took place in three areas which had an impact on the ways Chinese businessmen dealt with competitors in the market, with the state, and with Western firms, and in handling the relationship with their small shareholders. They also altered the outlook of Chinese business from the late Qing to the eve of the Second Sino-Japanese War.

The first institutional change was certainly the idea of corporate governance through government legislation. The introduction of company law and the adoption of the company organization by Chinese businessmen means that republican businesses were expected to become more open and responsible to the 'public' than their late Qing predecessors. Besides, although the new legal structure did not bring about the effective separation of ownership and management and corporate governance, it did provide the framework for doing so. Legal changes in pre-1937 republican China did not go very far in the protection of minority shareholders, but it can be argued that if any direction was apparent, the Company Law of 1929 enhanced the degree of accounting transparency and offered some protection for small shareholders' interests. The law made it compulsory for companies to recruit chartered accountants to audit their accounts, enhanced the possibility for small shareholders to call for an *ad hoc* shareholders' meeting to discuss the company's affairs, and limited the voting power of the large stockholders. The major shareholders, therefore, had to find the means to maintain their managerial leadership and commercial secrecy. By the same token of the quest for 'openness' in the use of public money, the republican laws of banking, especially those of 1931, claimed to protect the



interest of depositors from the default of banking institutions. Private means of financing, therefore, had to go through the steps of formal banking if large amounts of capital had to be gathered.

The second major institutional change took place in the Western business operations in republican China. This study has shown that the passing of the comprador system and its replacement by the legally recognized partnership (and even registered company) constituted one of the most important changes that Chinese businessmen experienced in the early decades of the twentieth century. The change in this system means a major shift in the strategy and structure of Western enterprises themselves. Although this shift itself requires more qualifications than remarks in passing, it still bears two meanings for this present study. On the one hand, it meant that the Western enterprises had to enlarge their investment in China not only in terms of capital but also of personnel. Training, monitoring, and command of personnel became an issue directly relevant to the decision-making process of the management of the Western enterprises, and an internalization of risks to them. On the other hand, it meant further integration of China into the world economy.

The third institutional change during the period under review was the government's new economic policies and systems. New policies and systems emerged not only because of a change in the regime, from the so-called 'warlord regime' to the 'nationalist' one, but also the economic issues that China had to encounter in the international arena, such as economic fluctuations after the end of the First World War, the volatile international monetary system, protectionism, the Great Depression of the 1920s, and the calling for more government actions in saving the economic depressions in the early 1930s. Besides, nationalism played an important role in providing a social atmosphere for the opportunists to exploit, obviously in the name of the nation or the state. In response, Chinese businessmen gradually altered their political colours and social status in this changing political and social environment. They changed from looking for connections and reputations associated with foreign trade and the treaty-port system in the late nineteenth century through the 1910s,<sup>9</sup> to gaining political, economic, and even social recognition through registering their businesses as companies in the 1920s.<sup>10</sup> By the 1930s, as the government tended to take an active role in promoting China's industry and commerce, they turned to cultivate their ties to the government and to see cartelization of the industry as an inevitable trend that might work to their benefit.

For the republican Chinese businessmen, there were two other important institutional changes which began before 1937 but had their impact on the

business environment effectively after the beginning of the Second Sino-Japanese War. These included both the 'banking' and 'currency' reforms of 1935. Both changed the financial sector by de-monetarizing silver and increasing the state's regulative power over money supply. Their impact on the economy in general has been widely discussed elsewhere while their impact on the business sector in particular deserves another book for investigation.<sup>11</sup> What must be said here is that, as those reforms were carried out, Chinese businessmen encountered a financial regime strongly tinged with the state, or under the state's supervision — or the so-called 'bureaucratic capitalism'. The fundamentals to negotiate for financial resources therefore began to change.

Nonetheless, these reforms became critical to the structure of Chinese business only because of an important historical event of which its impact went far beyond the importance of a single institution — the Second Sino-Japanese War itself. It altered most of the fundamentals in politics, the society and, not to say, in the economy, particularly the industrial and financial sectors. It not only created an emergency situation in which factory plants were threatened to ruin, or ruined by military operation, workers were dislocated either for wartime mobilization or migration, and markets were affected as transportation and communications were disrupted, but also empowered the party-state of the Nationalists to enhance its power in resource allocation by ordering full mobilization in the name of national resistance. The industrial and financial sectors of the economy were altered to a wartime situation which had lasting impact on China for decades to come.<sup>12</sup>

The changing outlook of the republican Chinese business leads one to re-evaluate the impact of new ideas in business management introduced during the period under review. It was indeed a period which witnessed an influx of ideas in business management such as professionalism and scientific management. It also witnessed the introduction of new managerial techniques, such as cost accounting and double-entry book-keeping. Together with the company organization, these new ideas and techniques formed the backbone of the token of 'modernity' for republican Chinese businessmen, or the creation of a 'new business culture'. However, similar to the institutional changes discussed above, these new ideas in the organization of business, presentation of figures potentially relevant to decision-making, and probably a new mentality for business, though being introduced and practiced, did not have an impact in altering the holding structure of the Chinese business empire. What remains fundamental to the Chinese businessmen, such as the accounts office and the problem of finance as this study suggests, therefore, persists to be key issues in understanding the workings of Chinese business. The new managerial ideas were, at the most, a set

of new tools of management, not the nucleus of business itself. One might even say that they were simply fashions of the time that Chinese businessmen picked up, put on, and thus changed their outlook.

To have said this does not mean this study denies the potential impact of these new ideas on the country's business structure as a whole. However, as the long-term change in business structure and practices requires more than the work of a generation or two, this study would argue that long-term institutional transformation would be needed to produce a fundamental alteration.

Nor does this study deny the existence of culture. Yet, it would disagree with the cultural explanation of Chinese economic development. It shows that to run his businesses, the businessman had to be entangled in various institutional settings in the Chinese economy. The reliance on family, for example, can be related to the lack of trust of outsiders. The guarantee system, used even by Western firms, was to reduce risk in business transactions. To use the cultural explanation for economic development simply means ignoring most of the institutional developments which had an impact on the practical calculations of the Chinese people.

This study certainly recognizes the importance of the state in the Chinese economy during the late nineteenth and early twentieth centuries. But it shows that the Chinese state could not be simply characterized as anti-business, as there existed a complex connection between the state and business. A crucial aspect in this connection was initiatives taken by businessmen to approach the state authority when they found it attractive to do so. Business and the state could also blend together for common interest, which might have encouraged business to flourish. If there was any 'anti-business' attitude of the state as such, those companies must have challenged its power and authority.

Based on the case of Liu's enterprises, it is obvious that the Chinese businessman was no doubt keen on expansion, and the factors that would have an impact on that process of his were closely related to business finance. I think that the development of the financial market in China must be crucial to the historical development of the Chinese economy. It would therefore be important to further explore the linkage between business development, holding structure, and finance. However, a supplementary direction must be added into this analysis: changes in holding structure must be examined beyond the life span of an entrepreneur, a longer period than the scope of this study.

Although Liu Hongsheng's case is limited in providing generalizations on how the Chinese economy developed, it has shown that the late nineteenth and early twentieth centuries were a key period for this growth. It must be noted that during this time, both traditional and Western institutions existed in China.

Instead of being dichotomized, some of these institutions blended together in the workings of Chinese business. The system of 'guaranteed dividends', for example, was commonly used among the industrial enterprises which adopted the Western institution of 'joint-stock companies' to raise capital among their Chinese shareholders. The 'comprador system' was another example in which the traditional Chinese business institution of guarantorship worked in the Western agency houses. The Chinese family also found room to survive in the management of Western-style business enterprises. These traditional Chinese and Western institutions blended together partly because of the further opening of China during this period and partly because of the growing trading interactions between the two worlds. As China became more open to foreign trade, there would be more examples of the two kinds of institutions working together.

# Notes

## Chapter 1

1. On China's introduction of company law and enterprise reforms in the 1980s and 1990s, see Guojia Tigaiwei Zhengce Faguisi [Policy and Law Code Department, the Committee of Policy Reform] and Sifabu Xuanchuansi [Publicity Department, Ministry of Law], comp., *Gongsifa Jianghua* [Talks on the company law] (Beijing, Qiye Guanli Chubanshe, 1994), pp. 1–12; also Jiang Hengxiang, ed., *Zhongguo Qiye Fazhan Jianshi* [A brief history of China's enterprise development], 2 Vols. (Beijing, Xiyuan Chubanshe, 2001).
2. Guojia Tigaiwei Zhengce Faguisi and Sifabu Xuanchuansi, comp., *Gongsifa Jianghua*, pp. 268–280; also Wang Lingjun, comp., *Qiye Gaizhi Chongzu Shangshi Fagui Wenjian Huihuan* [Compilations of legal documents on the reform, re-organization, and listing of enterprises] (Beijing, Gongshang Chubanshe, 2001).
3. This is the abbreviated form for Ong Sung Lieu, transliterated from the local pronunciation of Ningbo. I thank Professor Huang Hanmin of the Resource Center for Chinese Business History, Shanghai Academia of Social Sciences, to explain this to the author, who is ignorant of the local languages.
4. Liu Hongsheng, 'Wo Weishenmo Yonghu Gongchandang' [Why do I support the Communist Party?], *Xinwen Ribao*, 4 October 1956, reprinted in Shanghai Shehui Kexueyuan Jingji Yanjiusuo [Institute of Economic Research, Shanghai Academy of Social Sciences], comp., *Liu Hongsheng Qiye Shiliao* [Sources of the history of Liu Hongsheng's enterprises] (3 Vols.) (Shanghai, Shanghai Renmin Chubanshe, 1981), Vol. 3 (hereafter LHQS.3), pp. 461–472.
5. LHQS.1, preface, p. 2. 'National capitalists' or 'national bourgeoisie' have been used by the CCP to label those who were not loyal to the Nationalists during the civil war and the early years of communist rule, see Maurice Meisner, *Mao's China and After: A History*

- of People's Republic of China*, revised and enlarged edition (New York, Free Press, 1986), pp. 81–93.
6. LHQS.3, p. 463.
  7. Even Liu called himself 'an industrialist', see LHQS.3, for photograph on the facing page of the table of contents. On the debate and promotion of industrialization in China in the 1950s, see Maurice Meisner, *Mao's China and After*, pp. 117–121.
  8. One of his sons, Liu Nianzhi, had left memoirs about his father, see Liu Nianzhi, *Shiyeyia Liu Hongsheng Zhuandue* [A brief biography of the industrialist Liu Hongsheng] (Beijing, Wenshi Ziliao Chubanshe, 1982).
  9. For his biography, see Zhang Qifu and Wei Heng, *Huochai Dawang Liu Hongsheng* [The king of matches Liu Hongsheng] (Xinxiang, Henan Renmin Chubanshe, 1990); for his archival documents, see LHQS.1–3; and for the catalogue of the unpublished documents on Liu, see Shanghai Shehui Kexueyuan Jingji Yanjiusuo Zhongguo Qiyeshi Ziliao Yanjiu Zhongxin, comp., *Zhongguo Qiyeshi Suowei Ziliao Mulu yu Jianshe* [Catalogue and introduction of microfilm materials on Chinese Enterprise History] (Shanghai, Shanghai Shehui Kexueyuan Jingji Yanjiusuo Zhongguo Qiyeshi Ziliao Yanjiu Zhongxin, 2002), pp. 5–225.
  10. Ma Bohuang, 'Liu Hongsheng de Qiye Touzi yu Jingying' [Liu Hongsheng's enterprise investment and management], in *Shehui Kexue* [Social Sciences], 1980, No. 5 (October 1980), pp. 68–72; also by Ma, 'Lun Jiu Zhongguo Liu Hongsheng Qiye Fazhan Zhongde Jige Wenti' [On several questions in the development of Liu Hongsheng's enterprise in old China], *Lishi Yanjiu* [Historical Research], 1980, No. 3, pp. 49–66; Sherman Cochran, 'Three Roads into Shanghai's Market: Japanese, Western and Chinese Companies in the Match Trade, 1895–1937', in Frederic Wakeman, Jr. & Wen-hsin Yeh, eds., *Shanghai Sojourners* (Berkeley, Calif., Institute of East Asian Studies, University of California, 1992), pp. 35–75.
  11. Both China and Taiwan scholars have produced a considerable number of books and articles on Chinese management thinking in which Liu was also studied. Those that follow are only some concerning historical management thinking: Zhao Jing, ed., *Zhongguo Jindai Minzu Shiyeyia de Jingying Guanli Sixiang* [Managerial thought of national entrepreneurs in modern China] (Kunming, Yunnan Renmin Chubanshe, 1988); Zhong Xiangcai, *Zhongguo Jindai Minzu Qiyeyu Jingji Sixiangshi* [History of economic thought of national entrepreneurs in modern China] (Shanghai, Shanghai Shehui Kexueyuan Chubanshe, 1992); Xu Dingxin, *Zhongguo Jindai Qiye de Kexue Lilian yu Keji Xuying* [Power and impact of science and technology in modern Chinese enterprises] (Shanghai, Shanghai Shehui Kexueyuan Chubanshe, 1995); and Liu Wenbin (Wen-pin Liu), *Jindai Zhongguo Qiye Guanli Sixiang yu Zhidu de Yanbian (1860–1949)* [The thought and institutional transformation of management in modern China, 1860–1949] (Taipei, Academia Historica, 2001).

12. Sherman Cochran, *Encountering Chinese Networks: Western, Japanese, and Chinese Corporations in China, 1880–1937* (Berkeley, Calif., University of California Press, 2000), pp. 147–176.
13. A. F. McC. Madden, '1066–1776 and All That: the Relevance of English Medieval Experience of Empire to Later Imperial Constitutional Issues', in John E. Flint and Glyndwr Williams, eds., *Perspectives of Empire: Essays Presented to Gerald S. Graham* (London, Longman, 1973), pp. 9–26.
14. S. Gordon Redding, *The Spirit of Chinese Capitalism* (Berlin, Walter de Gruyter, 1990), pp. 41–52.
15. Gary G. Hamilton, ed., *Asian Business Networks* (Berlin, Walter de Gruyter, 1996); Ancin Lin, 'Social and Cultural Bases of Corporate Expansion: The Formation of Business Groups (*Jituan*) in Taiwan' (Cambridge, Mass., unpublished doctoral thesis in Sociology, Harvard University, 1995); Lisa A. Keister, *Chinese Business Groups: The Structure and Impact of Interfirm Relations During Economic Development* (New York, Oxford University Press, 2000); Marie-Claire Bergère, *The Golden Age of the Chinese Bourgeoisie, 1911–1937* (trans. by Janet Lloyd) (Cambridge, Cambridge University Press, 1986), pp. 140–186; and Wellington K. K. Chan, 'Tradition and Change in the Chinese Business Enterprise: The Family Firm Past and Present', in *Chinese Studies in History*, Vol. 31, Nos. 3–4 (Spring–Summer 1998), pp. 127–144.
16. Alfred D. Chandler, Jr., *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, Mass., Belknap Press of Harvard University Press, 1990), pp. 14–46. His thesis on the case of American businesses can be traced from his two major earlier works, *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* (Cambridge, Mass., MIT Press, 1962); and *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass., Belknap Press of Harvard University Press, 1977).
17. Leslie Hannah, 'Scale and Scope: Towards a European Visible Hand?', *Business History*, Vol. 33, No. 2 (April 1991), pp. 297–309; Barry Supple, 'Scale and Scope: Alfred Chandler and the Dynamics of Industrial Capitalism', *Economic History Review*, XLIV, No. 3 (1991), pp. 500–514; Richard R. John, 'Elaborations, Revisions, Dissents: Alfred D. Chandler, Jr.'s, *The Visible Hand* after Twenty Years', *Business History Review*, Vol. 71, No. 2 (Summer 1997), pp. 151–200.
18. Naomi R. Lamoreaux, Daniel M. G. Raff, and Peter Temin, 'Beyond Markets and Hierarchies: Toward a New Synthesis of American Business History', National Bureau of Economic Research Working Paper 9029, July 2002, <http://www.nber.org/papers/w9029>.
19. Mark Granovetter, 'Economic Action and Social Structure: The Problem of Embeddedness', *The American Journal of Sociology*, Vol. 91, No. 3 (November 1985), pp. 481–510; Brian Uzzi, 'The Sources and Consequences of Embeddedness for the Economic Performance of Organizations: The Network Effect', in *American Sociology Review*, Vol. 61, No. 4 (August 1996), pp. 674–698.

20. W. Mark Fruin, 'Analyzing Pacific Rim Networks and Markets: An Introduction', in W. Mark Fruin, ed., *Networks, Markets, and the Pacific Rim: Studies in Strategy* (New York, Oxford University Press, 1998), pp. 3–31; for the quotation, see p. 9. This is an observation made by Fruin by summarizing the findings of another article in that volume, Howard E. Aldrich and Tomoaki Sakano, 'Unbroken Ties: Comparing Personal Business Networks', in *ibid.*, pp. 32–52.
21. For example, in his recent comparative study of the adaptation of six industrial corporations into China's 'networked' society and business environment, Sherman Cochran has pointed out the inadequacy 'to focus exclusively on either corporate hierarchies or social networks'. See Sherman Cochran, *Encountering Chinese Networks*, p. 182.
22. Xu Dixin and Wu Chengming, comp., *Zhongguo Zibenzhuyi Fazhanshi* [A history of development of Chinese capitalism], Vol. 1 (Beijing, Renmin Chubanshe, 1985), pp. 695–714.
23. See, for example, Du Xuncheng, *Minzu Zibenzhuyi yu Jiu Zhongguo Zhengfu (1840–1937)* [Nationalistic capitalism and the old Chinese government (1840–1937)] (Shanghai, Shanghai Shehui Kexueyuan Chubanshe, 1991).
24. Some recent studies have argued for the positive role of the state in promoting economic growth in modern China, see, for example, Wang Yuru, Liu Foding, and Zhang Donggang, *Zhidu Bianqian yu Zhongguo Jindai Gongyehui — yi Zhengfu de Xingwei Fenshi wei Zhongxin* [Institutional transformation and industrialization in modern China — by focusing upon the analysis of government behaviour] (Xi'an, Shaanxi Renmin Chubanshe, 2000).
25. I would like to thank Professor David Faure for reminding me of this observation.
26. Susan Mann, *Local Merchants and the Chinese Bureaucracy, 1750–1950* (Stanford, Stanford University Press, 1987); William Rowe, *Hankow: Commerce and Society in a Chinese City, 1796–1889* (Stanford, Stanford University Press, 1984); Gary Hamilton, 'Nineteenth Century Chinese Merchant Associations: Conspiracy or Combination?' *Ch'ing-shih Wen-t'i*, Vol. 3, No. 8 (December 1977), pp. 50–71.
27. David Faure, 'The Lineage as Business Company: Patronage versus Law in the Development of Chinese Business', *Second Conference on Modern Chinese Economic History* (I) (Taipei, the Institute of Economics, Academia Sinica, 1989), pp. 347–376.
28. Douglass C. North, *Structure and Change in Economic History* (New York, W. W. Norton & Co., 1981), pp. 201–202.
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35. Marie-Claire Bergère, *The Golden Age of the Chinese Bourgeoisie, 1911–1937*, p. 141.
36. Professor Hamashita Takeshi made such an observation in a presentation for the South China Research Circle on 3 May 1992, in Division of Humanities, Hong Kong University of Science and Technology, titled 'Cong Zhangbu kan Zhongguo Wenhua' (From account books to see Chinese culture), tape-recording transcription by Kai Yju Chan for the South China Research Circle.
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## Chapter 2

1. David Faure, 'The Lineage as Business Company: Patronage versus Law in the Development of Chinese Business', *Second Conference on Modern Chinese Economic History* (I) (Taipei, the Institute of Economics, Academia Sinica, 1989), pp. 347–376.
2. Yen-p'ing Hao, *The Commercial Revolution in Nineteenth-Century China: The Rise of Sino-Western Mercantile Capitalism* (Berkeley, Calif., University of California Press, 1986), pp. 80–90; also see Zhang Guohui, *Wan Qing Qianzhuang he Piaobao Yanjiu*

51. See the profit-and-loss account of Lieu Ong Kee for 1932, in LHZD, 12-032.
52. See the accounting record of Lieu Ong Kee's assets for 1932–1933, in LHZD, 12-011.
53. See the annual balance of the Banking Department of the China Development Bank 1932–1942, in *Zhongguo Qiye Yinhang, 1931–1950* (LHQZ-SASS), p. 142.
54. See the profit-and-loss account of the Banking and Savings Departments of China Development Bank as at the end of January 1933, in LHZD, 10-010.
55. The amount of 'deposits in other banks' by the end of 1932 was 1 831 264.48 yuan. With 2.5 percent per annum interest rate, the figure of 3815 yuan of interest for January 1933 is obtained by:

$$1\,831\,264.48 \times 0.025/12 = 3815.13$$

For the amount of 'deposits in other banks', see the annual balance of the Banking Department of the China Development Bank, 1932–1942, in *Zhongguo Qiye Yinhang, 1931–1950* (LHQZ-SASS), pp. 142–143; for the interest rate on these deposits, see the monthly report of the Banking Department of China Development Bank as at the end of July 1933, in LHZD, 10-010.

56. For the figures of 1931, see the annual financial analyses and the auditor's report of Lieu Ong Kee, 1932, in LHZD, 12-032; for 1936, see Xu Yongzuo's auditing report on Lieu Ong Kee for the year 1936, dated 14 April 1937, in LHZD, 12-030.
57. See the two documents in the previous footnote.
58. By the end of 1936, China Development Bank had a net credit balance of 1.1 million yuan of fixed loans to Lieu Ong Kee, while the total amount of fixed loans was 2 368 000 yuan. See the annual financial report of Lieu Ong Kee for 1936, in LHZD, 12-018.

## Chapter 8

1. On the case of the Rong brothers, see Xu Weiyong and Huang Hanmin, *Rongjia Qiye Fazhanshi* [A history of the development of the Rong family's enterprises] (Beijing, Renmin Chubanshe, 1985), pp. 30–32, 119–125; and Kai Yiu Chan, 'Big Business Financing in Modern China: A Case Study of the Flour Milling and Cotton Textile Enterprises of the Rong Brothers, 1901–1936'<sup>1</sup> (Hong Kong, unpublished M.Phil. thesis, History Division, Chinese University of Hong Kong, 1992), pp. 110–129.
2. On the Guo family, see Shanghaishi Fangzhi Gonyeju, Shanghai Mianfangzhi Gongye Gongsi, Shanghaishi Gongshang Xingzheng Guanliju, Yong'an Fangzhi Yinran Gongsi Shiliaoza, eds., *Yong'an Fangzhi Yinran Gongsi* [The Wing On Textiles and Dyeing Company] (Beijing, Zhonghua Shuju, 1964), pp. 1–31, 128–133; Shanghai Shehui Kexueyuan Jingji Yanjiusuo, comp., *Shanghai Yong'an Gongsi de Chansheng Fazhan ban Gaizao* [The formation, development and reform of the Shanghai Wing On Company] (Shanghai, Shanghai Renmin Chubanshe, 1981), pp. 1–21, 63–83, 122–132; Wellington K. K. Chan, 'The Origins and Early Years of the Wing On Company Group in Australia, Fiji, Hong Kong and Shanghai: Organisation and Strategy of a New

- Enterprise', in Rajeswary Ampalavanar Brown, ed., *Chinese Business Enterprise in Asia* (London, Routledge, 1995), pp. 80–95.
3. Sherman Cochran, *Big Business in China: Sino-Foreign Rivalry in the Cigarette Industry, 1890–1930* (Cambridge, Mass., Harvard University Press, 1980); on the selling of Nanyang shares to outsiders in the early 1930s, see particularly pp. 196–197.
  4. Elisabeth Köll, *From Cotton Mill to Business Empire: the Emergence of Regional Enterprises in Modern China* (Cambridge, Mass., Harvard University Asia Center, 2003), p. 284.
  5. *Ibid.*, pp. 158–208.
  6. Guo Daoyang, *Zhongguo Kuaiji Shigao, Xige* [A drafted history of Chinese accounting, Volume 2] (Beijing, Zhongguo Caizheng Jingji Chubanshe, 1988), pp. 15–19.
  7. A related discussion on the Dasheng Cotton Mills in Nantong can be found in Elisabeth Köll, 'Controlling Modern Business in China: The Da Sheng Enterprise, 1895–1926', *Journal of Asian Business*, Vol. 14, No. 1 (1998), pp. 41–56; also by the same author, *From Cotton Mill to Business Empire: the Emergence of Regional Enterprises in Modern China*, pp. 123–157.
  8. Liu's sons, his biographers, and scholars who had catalogued his archives made no reference to the ending of the accounts office itself, except that the former two mentioned in details about the last days of his in September 1956, while the latter mentioned the beginning of cataloguing Liu's papers in November 1958. See Liu Nianzhi, *Shiyejia Liu Hongsheng Zhuanlue* [A brief biography of the industrialist Liu Hongsheng] (Beijing, Wenshi Ziliao Chubanshe, 1982), pp. 116–126; Zhang Qifu and Wei Heng, *Huochai Dawang Liu Hongsheng* [The king of matches Liu Hongsheng] (Xinxiang, Henan Renmin Chubanshe, 1990), pp. 235–239; LHQS.1, preface, pp. 1–3; Shanghai Shehui Kexueyuan Jingji Yanjiusuo Zhongguo Qiyeshi Ziliao Yanjiu Zhongxin, comp., *Zhongguo Qiyeshi Suowei Ziliao Mulu yu Jianjie* [Catalogue and introduction of microfilm materials on Chinese Enterprise History] (Shanghai, Shanghai Shehui Kexueyuan Jingji Yanjiusuo Zhongguo Qiyeshi Ziliao Yanjiu Zhongxin, 2002), pp. 5–6, 212. However, I found that the last entry in the accounts office's assets book dated 21 February 1956. It might have been run until that year. For the assets book, see LHZD, 12-010, p. 127.
  9. In the late 1910s and early 1920s, for instance, Liu had been a member of the Shanghai General Chamber of Commerce, representing of the KMA's Shanghai Agent. The earliest record I found was 1916, see the list of members of the Shanghai General Chamber of Commerce, in Zhang Huanzhong, *Shanghai Zong Shanghui Yanjiu (1902–1929)* [A study of the Shanghai General Chamber of Commerce (1902–1929)] (Chung-ho City, Taipei County, Zhishufang, 1996), p. 391.
  10. For instance, in 1922, after Liu became the general manager of Shanghai Cement, he changed his membership by representing his own company. *Shenbao*, 16 September 1922.
  11. On the impact of the currency and banking reforms in China, see Arthur N. Young, *China's Nation-Building Effort, 1927–1937: The Financial and Economic Record* (Stanford,

- Hoover Institution, 1971), pp. 216–285; for a brief account of the government's control over the banking sector and the currency reform, see Parks M. Coble, Jr., *The Shanghai Capitalists and the Nationalist Government, 1927–1937* (Cambridge, Mass., Harvard University Council on East Asian Studies, 1980), pp. 172–205.
12. For an attempt to investigate the impact of the war on Chinese businessmen, see Parks M. Coble, Jr., *Chinese Capitalists in Japan's New Order: The Occupied Lower Yangzi, 1937–1945* (Berkeley, Calif., University of California Press, 2003).

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