**SOCIAL NETWORKS, LEGAL LOOPHOLES, AND INNOVATING ENTERPRISES—THE SUCCESSFUL CHINESE FAMILY FIRM IN THE LATE QING AND REPUBLICAN ERA (1890-1937): A REBUTTAL TO CHANDLER**

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**Introduction**

Historical research on Chinese family firms is part of a growing subfield of modern China studies. Approaches to Chinese business history in the scholarly literature from the People’s Republic of China (PRC), Hong Kong, Taiwan, and EuroAmerica differ, but many of the issues and problems raised in recent books and learned articles demonstrate the widespread and intense interest in this subject. Prominent themes in these publications include the role of the state and the social order in shaping business organization and practice, forms of business organization (e.g. family, lineage, partnership, government-sponsored) and their efficacy, the nature of Chinese entrepreneurship, and foreign influence on Chinese economic development. Interestingly, it is very rare to find any reference to Chandler and his models in these publications. Unlike some Britain and Japan historians who have accepted the ‘Chandlerian message’, that the development of modern corporations run by professional managers fostering innovating technology heralded the triumph of modern industrialization, China specialists have been loath to adopt the strategy of the Harvard business historian. It is known for example that in Britain where economic history writing had long emphasized industries rather than firms, Chandler’s work had a ‘catalytic effect’ (Nelson:157; cf. Kirby and Rose). In Japan, the valuable 1989 study by Tsunehiko Yui and Keiichiro Nagawa showed how Chandler’s paradigm was applicable in non-Western societies.

In the case of Chinese business history, there are several reasons to explain the indifference to Chandler. First, the predominance of small-scale businesses in the nineteenth century, and the importance of the official, bureaucratic enterprises in the twentieth century allowed no space for the Chinese manager’s ‘visible hand’ to maneuver. Second, the framework of Chinese business both in the past, and nowadays, represents a distinctive collection of practices, such as networks, the ‘family business’, the reticular market structure, the co-optational relationship between the state and private-enterprises, and ‘nationalistic business’ (Hao:122). In this way, the qualities of Chinese
business history developed differently from the key features of other communities' entrepreneurial histories, such as managerial creativity in the United States, or the close ties between government policy and manufacturing in Japan. Interestingly, it was only at the height of the Chinese Communist state socialist regime, during the 1950s and early 60s, that the vertically integrated form of production, so important to the Chandlerian model, predominated the economy. One thinks of the massive iron and steel works run according to Fordist organizational form that carried industrial production in the first decades of the PRC. In contrast, it was in Hong Kong and Taiwan during the same period when small-scale Chinese family firms began to 'take-off'. By the 1970s, their success initiated a revisionist perspective toward East Asian business history—from an earlier emphasis on negative qualities of Chinese culture such as particularism and bureaucratism (à la Max Weber) as impediments to industrialization, to a positive attribution of group loyalty and familial cooperation in the making of successful enterprise (cf. Berger).

Given the limitations of Chandler’s influence on Chinese business history, one may well ask why bother to discuss him at all in relation to this matter. The answer to this question lies in its comparative value. By comparing the Chandler prescription for entrepreneurial success with the Chinese achievement, one may better understand the differences between business regimes. Although it is 'beyond' the limits of this paper to discuss Chandler’s work in detail, suffice to say that there is an ‘essential Chandler’ that focuses on technology and big business organization as explicatives of economic performance in EuroAmerica, and to a certain extent in Japan. In this paper, we will briefly review the ‘essential Chandler’, and thereafter consider the Chinese alternative to entrepreneurial success. In contrast to Chandler and his supporters who regard the family firm and personal management as ‘traditional’ forms of business, our study aims to demonstrate that the Chinese way of doing business, whether in the past or in the present, defies the simple ‘traditional versus modern’ bifurcation.

The ‘Essential’ Chandler

The era of modern business history originates from the 1950s when Alfred D. Chandler, Jr. redefined the character of this field and provided a starting point for understanding the emergence of big business (see McGraw for publication list; cf. R.John). His starting point was the centrality of technology to economic and social change. In pre-Civil War America, small family-owned and – operated firms prevailed because primitive transport and communication technologies made it uneconomical to operate on a larger scale. But with steam power and telegraphy came change, and larger factories and more sophisticated distribution systems took root. At this point, according to Chandler, individuals counted. A successful organization was one where an effective manager created an effective organization that permitted middle managers to gauge the possibilities and limitations of their environment. Chandler summarized his message in the title of his best-known book, The Visible Hand (1977). Here he argued that in countries where modern technologies
permitted economies of scale and scope, the ‘visible’ hand of the manager rather than the ‘invisible’ hand of the market coordinated economic activity. Over time, as the parameters of business changed, the single-function industrial firm and the independent wholesaler became obsolete. At that point, in the early twentieth century, it was the big business company relying on transportation and communication networks to improve production methods and in-house distribution and marketing activities, based on a vertical integration facilitating the coordination of these functions, that proved most successful. The Chandlerian ‘world’ was now a real possibility.

In sum, according to Chandler, technology is the principal stimulus to economic change, and technological innovation is a product of individual and corporate creativity. Based on his understanding of American business development in the late nineteenth and early twentieth centuries, Chandler has contended that by then large firms dominated transportation, communications, and high-volume manufacturing while ‘traditional’ firms controlled agriculture, most manufacturing, and most services. Although there are numerous differences in the economic histories of Britain, Germany, and Japan, Chandler has showed in his volume Scale and Scope (1990) how this pattern also characterized the development of business systems in these regions as well. While the role of the state as planner and formal or informal allocator of investment funds has been crucial in business development in these places, Chandler, nevertheless, has discounted the state as primary innovator.

**Controversies in Chinese Business History**

Chinese business history, which may be termed in Chinese qiye lishi (enterprise history) or shangye lishi (commercial history), is a steadily growing subfield of Chinese economic history which itself has been very much under the influence of Western paradigms, including neoclassical economics, Marxism, and Weberianism, along with modernization theory. From its earliest beginnings in the 1950s, the study of Chinese business history became tied to a general concern of economic historians with the question of “Why didn’t China modernize?” In the PRC, the Marxist framework led to a search for China’s capitalist past, and saw the publication of a series of studies preoccupied with the “sprouts of capitalism.” The goal of this research was to show that, had the imperialist powers not placed a stranglehold on China’s economy, the progress of capitalism would have developed beyond the budding stage. During the same period, Western works on Chinese business history, following the model ‘China’s response to the West’ propagated by the Harvard historian John K. Fairbank, aimed to discover what factors lay behind China’s ‘tardy modernization’ (see Zumdorfer).

In some ways such views reflect the times and places in which they were written. In the 1950s, most of the nations of East Asia were very poor, and no economic miracle was in sight. The Soviet model rivaled capitalism as a strategy for development, and the Chinese government had developed a close affinity to the Russians. In America where modernization theory was very much in vogue, Fairbank’s student Albert Feuerwerker wrote a book about late nineteenth century economic
reform, *China’s Early Industrialization: Sheng Hsuan-huai (1844-1916) and Mandarin Enterprise* (1958). Feuerwerker argued China’s first attempts at industrialization failed because the institutional framework in which merchants and government worked together did not break with the past to create a new system that resembled what had happened in EuroAmerica. Fairbank and his followers aimed to show that late Qing and Republican China native economic and business organizations were weak, and not easily adaptable to modern industrialization.

In a similar spirit, modernization theory advocates invoked Max Weber’s views that contrasted Chinese cultural values against the West’s Calvinist Protestant ethic to argue Chinese religion’s ostensible absence of rationality, and the Confucian this-world orientation as an explanation for China’s failure to develop a modern economy. But some thirty years later, as the four ‘tiger’ economies of East Asia (Hong Kong, Singapore, Taiwan, and South Korea) boomed, culture now seemed the explicative for their success. Following the lead of Yu Yingshi, a series of both Western and Chinese advocates have ‘re-invented’ Confucianism as a force that promotes business culture. These ‘post-Confucianists’ see particular Confucian qualities such as diligence, frugality, and the love of education as positive factors to explain the economic success in these East Asian locations, and now in the PRC. Thus, as China’s economy continues to grow, some observers will persist in their belief that Confucianism is integral to this dynamism.

As I have argued elsewhere (Zurndorfer), the use of fixed models or cultural values to explicate historical circumstances is usually unreliable and not meaningful. The problem with the earlier studies which relied on cultural notions often assumed that comparable institutions in the West and China performed similar functions. For example, a 1949 volume by the modernization theory advocate Marion Levy, Jr. claimed the Qing government, according to Western and Japanese contemporary standards, was dysfunctional and could not support private enterprise, let alone foster change and development. But a number of important studies by Jane Leonard, Robert Gardella, Susan Mann, and Kenneth Pomeranz have convincingly eradicated any validity to Levy’s work. They have showed that the roles of officials and merchants during the late Qing were not inflexible fixed categories, that extended families and lineages consciously promoted the division of occupation strategies among sons and male relatives to provide optimal mutual support from government and commercial institutions, and that Qing officials, especially at the local level, did help promote commerce and business development. Now, let us consider the history of the Chinese family firm and how its history defies the bifurcation of ‘traditional versus modern’.

**The Chinese Family Firm: A Short Synopsis**

Our understanding of the Chinese family firm is due in part to a series of important studies by leading China scholars, including Robert Gardella on the Fujianese tea trade, Sherman Cochran on the cigarette industry, Andrea McElderry on native banks, Madeleine Zelin on the salt industry, Elisabeth Köll on cotton textile manufacture, and Wellington Chan on department stores. Given that
there is not yet a sufficiently large data base of Chinese firms, one may argue that there exists too a
great number of variations and determinants to make a sharp analysis of the Chinese family firm.. On the other hand, one may accept that there is sufficient information to sketch a set of ‘core structural and behavioral features of the Chinese firm’, as Wellington Chan has done (W.Chan). He proposes five ‘core features’ of the Chinese family firm: ownership, control, size, structure, and strategy. He defines the family firm as one in which the ownership and effective control of the business is held by a single family, a single lineage, or several families or lineages joined as partners. We shall examine these characteristics and refer to a number of historical studies that add information to Chan’s schema.

Ownership and Control

In Chinese family firms it is common that ownership and control are in the hands of the same persons. It is often the case that the head of the family (jiachang) is also head of the family enterprise (dangjia). The head of the firm (and family) will use his networks to further the enterprise and rely on effective interpersonal relations in order to bolster the family business. Chan proposes that the result of this situation is that the institutional structure of the firm, at least at the top, remains unstructured and informal. Even those firms that develop into multi-unit sizes and require complex administrative coordination can function under the supervision of loose and flexible control groups who advise the owner (cf. Hamilton). In ‘Chandlerian terms’ such an arrangement is considered ‘traditional’. But from a Chinese perspective, as Chan argues, the firm’s informal structure and operation are neither traditional nor modern, but a different way for the owners to make decisions and execute effective control.

In a now classic study of the Chinese family firm, Siu-lun Wong has also examined the issue of ownership and control over the long term. Wong identifies four phases of the family firm’s development cycle over the generations: ‘emergent, centralized, segmented, and disintegrative’. In the first phase, family firms begin as partnerships, and while growing and expanding, continue to allow centralized ownership. Sometimes one or more of the partners may gain greater control until the others are forced to sell out. But then when the one principal owner dies, inheritance rights are distributed equally among the male heirs, and there is likely to develop several divisions or centers of decision making. This situation usually leads to asymmetrical patterns in shareholders. Even if the firm survives into the second generation, there is still more disintegration as the third generation who, as first cousins, will have even less interest to keep up the ‘family firm’ as a single entity. Wong’s model helps explain why so few Chinese firms gained longevity. According to the records of two long-lived firms, the Yutang Company (1770s through 1950s) of Jining (Shandong), and the Kin Tye Lung (since the 1850s) of Hong Kong, the pattern of shifting branches of ‘family takeover’ is clearly visible. While some branches of the family were in charge over a number of generations, others fell
away. The family ‘name’ stood intact but in actual fact, ownership and control changed from one branch of the family to another (Pomeranz; Choi).

One of the drawbacks of the Chinese family firm organization is that the close identity between ownership and control places heavy restraints on growth and diversification. On the other hand, it was possible for ‘outsiders’ to have small minority shares in a business, with no involvement in the running of the enterprise. This was done to facilitate networking and to provide a means of spreading risks. As Chan observes: ‘Since [late imperial] China recognized no legal distinction between individuals or individual families and corporations, assets and liabilities of one became blended with those of the other, with no legal concept of limited liabilities separating one category from another. However, if a partnership failed and fell into debt, the law allowed a minority or undisclosed partner not involved in the business to limit his liabilities only to the full extent of his capital contributions’ (Chan:134).

From 1904, owners had more opportunity to exert leverage and to extend their influence into wider spheres of control. In that year, the Chinese government adopted into law the Western concept of limited liability for corporations, together with the registration and the public subscription of company stocks. The authorities then believed that large corporations could now be formed through the pooling of large amounts of capital from the public. But, in fact, not many companies during the first half of the twentieth century made use of this regulation because registration required extensive disclosures that businessmen were reluctant to provide the government, while most Chinese people were unwilling to invest in companies with which they had no personal relationships (Kirby). There were exceptions to this scenario, and again Chan informs us of these cases. As he records: ‘the Wing On group of companies in Shanghai and Hong Kong...made the corresponding registration with the Hong Kong authorities so that Guo Luo and Guo Quan, the two brothers who ran it as a tightly controlled family firm and as one of China’s largest commercial establishments from the 1910s to the 1940s, were able to maintain effective control with just five percent of the total company stock. They did so with careful placement of interlocking directorships, and the use of old-fashioned networking with thousands of individually small shareholders, almost all of whom the two Guo brothers knew personally and with whom they shared overseas experiences in Australia and Hawaii (Chan:134).

Nowadays, a small number of ‘small’ family firms continue to dominate the Hong Kong stock exchange. It is not unusual for one of these family-controlled firms to exercise control through the ownership of an average of 35 to 45 percent of the stocks of primary companies. One researcher has found that among the ten largest family firms listed on the Hong Kong stock exchange, their individual market equity ranged from US$ 3 to 16 billion in 1994, a not untidy sum! (see Feng).

Size

Another consistent characteristic of Chinese family firms is their size, which has remained relatively small both in the past and in the present. In the late imperial era, the small-scale,
enterprising commerçant restricted his business to a limited dimension so as not to attract excessive official attention; he also lowered the transaction costs of doing business by making extensive use of networking, loyalty, and trust. Those large-scale enterprises which were established in the late Qing, e.g. Zhang Jian’s cotton mill, could be set up only as state monopolies or under official patronage (Faure). In sum, business trust in late imperial China was ‘particularistic and personal’: it was based on familiarity—the factors of kinship, friendship, and mutual interest were integral to its success.

Modern entrepreneurs continue to see the advantages of keeping businesses small. Given the fact that the typical Chinese firm in Southeast Asia, and Taiwan acquire capital for ‘quick and high returns’ (as opposed to large, long-term investments), it is not surprising that most Chinese-owned firms will rely on the financial resources of small circles of family and close friends, or internally generated sources of funds, such as those resulting from the reinvestment of profits’ (Chan:137). Also, the Chinese inheritance system continues to play a role in how companies develop. Equal inheritance among male heirs means that a successful businessman is more likely to help his sons found new companies with related or unrelated lines of business, than to expand his own company (Chan:137). How Chinese businesses will continue to flourish in a global economy that is dominated by large multi-national corporations is of key interest here. To date, it seems that more and more Chinese family firms, including those operating in the PRC, rely on contractual linkages and flexible modes of specialization to bolster their control over manufacturing processes and the threat of financial breakdown (Hamilton).

Structure and Strategy

Another enduring feature of the Chinese family firm is the strategy that puts a premium on loyalty, mutual trust, or keeping up one’s good name (xinyong) in order to increase one’s chances of running a profitable operation with minimal transaction costs. As for government involvement in private initiatives, during the late Qing and early Republican era, family firms utilized government appointed, or government approved, agencies such as guilds and trade associations so as to minimize direct contact with the government bureaucracy. More often than not, there was ‘suspicion’ of government sponsorship, because ‘political authority was seen as capricious, hostile, and in need of careful manipulation’ (Chan:138). At the same time, one must remember, the blurriness of the functional division between officials and merchants. In the late nineteenth century, for example, conservative senior court officials like Grand Councilor Sun Yuwen and the middle ranking customs official Nie Qikui quite openly (but not officially) acknowledged their ownership of the Yutang Company and the Huasheng Cotton Mill, respectively.

More recently, family firms, while highly suspicious of excessive control, do turn to the state for infrastructural support, and not least, for favorable legislation, but not for intervention. One thinks of Hong Kong’s economic success as due in part to the noninterventionist policy of its government.
Similarly, in Taiwan a few years ago, the government was unable to slow the flow of capital to China and Southeast Asia by local entrepreneurs (Hamilton).

**Conclusion**

China business historians often view the success of Chinese family firms in terms of two characteristics: their flexibility and their tenacity. These businesses can adapt relatively easily to new environments (perhaps because of their small size), and are tenacious in their embrace of a core set of cultural values and institutional frameworks. Those Chinese entrepreneurs who operate on personal trust to conduct their business might expand their interests when they feel certain a modern state provides them with reliable legal, administrative, and economic institutions. Moreover, the essential qualities of the Chinese family firm remain constant, i.e. the use of networks, personal relations, restricted ownership and control. In this way, Chandlerism does not seem to have much relevance to the history of Chinese enterprise. The vitality, flexibility, and success of the Chinese family firm is a key facet of modern Chinese economic history, and Chandler notwithstanding, it is not a form that can be easily dismissed.

**Selected References**


