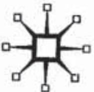

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2
A Historical View of Chinese Entrepreneurship

David Faure

The historical context

China's economy boomed in the sixteenth century and collapsed in the nineteenth, the reasons for both were technological, economic or political. They had less to do with changes brought about by any increase in size and scale as the Chandler model might suggest, than the transformation of the land-based economy to the rules of accounting and management as outlined by Sidney Pollard in his discussion of changes in business practices during the early stages of the English Industrial Revolution (Pollard, 1968).

On the technological front, there simply is no reason to assume that the technology that propelled China forward in the sixteenth century was necessarily a precursor of the technology that was imported in the nineteenth century. Sixteenth-century Chinese technology was the workman's technology; late nineteenth-century technology was driven by laboratory inventions. Sixteenth-century China produced most of the machines that the West re-invented in the textile revolution, but that simply highlights how extraordinary the steam engine was among the inventions of the Industrial Revolution and the tremendous impact it made. To take only the impact the steam engine made on coal and iron consumption as an example, China historians might be excited about the amount of iron that China smelted in the Song dynasty (tenth to thirteenth century), but it was only after the steam engine was invented that any of that could have gone into steamers and railways. Together with the steam engine, the West also invented the factory. What is said of the steam engine applies just as well to the factory: We have no reason to suppose that it was necessarily an outgrowth of the workshop. Quite the contrary, the management of a workshop depended upon principles that

were quite different from the management of a factory. The history of the factory has to do with the history of stock control, cost accounting, interchangeable parts, conveyor belts, and so on, and none of this had any affiliation with workshop production (Pollard, 1968; Mathias, 1983).

The economic reasons for China's success and decline have to do with the world production and movement of silver. China's huge internal market of the sixteenth century came about just when silver was imported into China, first from Japan and then ultimately from the New World. Silver import made an impact on taxation and state finance before it transformed the market. The availability of silver revolutionized taxation: Payment in kind and labor service gave way to payment in money, and the ability to collect tax in money allowed both the central government and local governments to streamline and to grow. The Qing dynasty government, until the Taiping Rebellion, was the epitome of the bureaucratic state surviving on a very sound revenue base, the greater part of which depended upon land taxation. It lost its grip on taxation thereafter and no Chinese government regained it, despite repeated effort, until the 1950s. We would exaggerate the impact of silver import if we ignore other causes of the long swings, in particular the introduction of New World food crops, the exploitation of the Yunnan copper mines, foreign trade, handicraft, periodic famines, and war. These causes aside, the periods in which silver was imported into China in noticeable quantities agree well with the periods of economic prosperity. In the sixteenth century, the eighteenth century, and from the 1870s to the 1920s, the Chinese economy expanded. In contrast, in the first half of the seventeenth century and in the first half of the nineteenth century, when silver import into China slowed down, the Chinese economy became sluggish. The silver panic of 1934 to 1935 perhaps best illustrates such a trend. China weathered the world depression in 1929 because silver continued to flow in, but the effect of the outflow of silver by 1933 was so immediate that the government finally agreed to overhaul the entire currency system and give up silver as a monetary unit (Quan, 1972, 1976; Liang, 1984, 1989, 1990; Shiroyama, 2008).

As for the political argument, at its heart is the question of whether the free man of business emerged as the relationship of the Chinese state to the territorial community evolved. His evolution in China twisted from the path familiar to the Western historian: The free man of business who emerged from the sixteenth century and survived into the nineteenth century did not exert his political interests as a man of business, but, following the dictates of imperial China's social structure, he appeared as a member of the literati. There was no shortage of merchants in imperial China, nor were they reined in by the literati

bureaucrat; more often than not, merchant and literati came from the same village and extended family. This argument departs from Max Weber's description of the "traditional" Chinese society even though it draws upon the institutionalism that he heralded.

Max Weber wrote at a time when Western scholarship on China was coloured by the nineteenth-century view of Chinese backwardness. In recent years China scholars have moved away from these views. Crucial to the change has been the work of the anthropologist Maurice Freedman, who teased out of the then-existing literature the distinction between the Chinese family and the lineage, and who introduced the idea that central to the lineage was its incorporation. The Chinese family, therefore, no longer appears to China historians as the cultural baggage which focused investment on land. Instead, the lineage is now recognized as the vehicle by which sixteenth-century China learned to maintain property rights, and hence, corporate investment. Having given up the idea that China was governed by a gentry class, the China historian is also much more likely to subscribe to the idea that an elite had existed which combined bureaucratic, managerial and business interests, and that it was not Confucianism as a religious belief that had spread from the sixteenth to the eighteenth century, but rituals sanctioned by the state (Faure 2006, 2007).

The current view of Chinese economic history acknowledges a great deal more dynamism in the late imperial past than would the literature that had informed Max Weber early in the twentieth century, and it regards the sixteenth-century economic expansion, brought on by the influx in silver, as an essential foundation to growth in the 1930s and 1980s. As long as specie was in short supply and tax had to be raised in kind or as an element of service, tax status determined the household's relationship to the state. The early Ming dynasty (the fifteenth century) was a status-oriented society, where one's life chances were influenced by whether one was born in a commoner household, military household, saltern household, artisan household, and so on. By stealth or by changes in the law, the monetary economy brought most of this to an end by the sixteenth century. Liberated from the status structure, the household became a tax account under which an entire lineage might have registered, and, as it did so, it expanded and came to be manipulated for the control of property (Freedman 1958, 1966; Fu 1956, 1961, 1992; Liu 1997).

Extended households could combine tax-collection and the control of property because, despite its language of control, the Ming dynasty government recognized well the autonomy of local society. It did so by turning a blind eye to the extension of state dictates as ritual rather than

administrative practices. At the same time, it maintained a semblance of unity by governing through a bureaucracy recruited by examination. Success in the examinations fostered social mobility for the individual and his kin groups, and that produced a social stratum – not excluding merchants – whose vested interest rested in preserving the rituals that were sanctioned by the state.

The spread of rituals which were only superficially uniform allowed great flexibility in the control of property, and that is why emphasis is given here to the political argument as an introduction to the emergence of entrepreneurship. Failure to grasp this aspect of Chinese society in the three centuries of economic growth prior to the nineteenth-century downturn would render traditional Chinese practices impossible to understand. Business practices in imperial China, like many other practices, were governed less by a law than by ritual. As Gary G. Hamilton has succinctly put it, "Whereas in the West laws regulate the actions of people, norms in Asia order the relations among roles" (Hamilton, 2006: 45).

The focus on ritual did not make the Chinese entrepreneur less rational than his Western counterpart, for while the moralist in him (rarely "her") might talk about filial piety, the same urge for filial piety also required descendants to hold property in honor of the ancestors and make provisions for sacrifice to them. Filial piety, therefore, demanded the amassment of property, and that required a sense of where one might invest. The state made no provisions for the recognition of the corporation, but ritual demanded that temples and ancestral halls must be supported by corporate groups. Essentially, these ritual practices guaranteed the recognition of property rights. In this context, Chinese entrepreneurs built their businesses through boom and bust up to the nineteenth century, until the new business structures introduced through Western company law challenged them.

Institutions of entrepreneurship

The traditional Chinese entrepreneur – resting on knowledge of business practices from the sixteenth to the eighteenth centuries – would have been adept in the manipulation of ritual practices for the corporate holding of property. Yet, by the nineteenth century, the appearance of the Western company – backed up by Western company law and a shift in the balance of political power between China and the West – brought sweeping changes. In this section, I shall explain why the changes were sweeping, and in the next section, I shall describe how Chinese entrepreneurial practices changed.

Lineage and religious corporations

The sixteenth-century economic expansion popularized the use of written contracts. (Brockman, 1980; Chen and Myers, 1976; Hayes, 1985; Yang, 1988; Hansen, 1995). A consequence of that was the formation of partnerships in business. The difference between a partnership and a corporation is a matter of perception, but in the difference of perception is attached a range of rules and regular practices that allows the corporation to deal with property in ways that partnerships cannot. In the Ming and the Qing dynasties, where the attitude of the state on voluntary association was expressed more in ritual than in law, the practicalities of ownership were not always removable from the religious connotations in which properties were owned.

The Chinese had very clear ideas of corporations. They were described by a wide range of terms for which translation is usually at best only approximate. The *hui* (association), the *she* (territorial organization), the *tang* (hall), and the *hang* (trade) were corporations that we may think of as voluntary, while membership in the *jia* (family), *hu* (household), and *cun* or *zhuang* (village) would be acquired, in theory, by birth or by settlement (Sangren, 1984). Whether corporate membership was voluntary or involuntary is a matter that can be debated, but voluntary or not, the corporation gave the appearance that its existence extended beyond the individual. In this respect, the corporation allowed for the illusion that property rights might be maintained, if not for perpetuity, then at least for well beyond a generation. The sense of continuity mattered a great deal in the holding of property. It provided for the holding of shares and long-term investments.

In China, the sense of permanence as a built-in component of the corporation derived from the relationship between individual members of the corporation through the mystical bonds that the group established with deities or ancestors. In the lineage, for example, regular sacrifice to a host of ancestors to whom different members of the lineage might lay different claims, and the endowment of ancestral trusts related to such sacrifice, emphasized the corporate character of the lineage. The fact that the property was regarded as belonging to the ancestors rather than the surviving members of the lineage enforced the perception that the property was held for perpetuity. Moreover, rules set up for ancestral worship had implications for the management of equity and, therefore, the division of profit. For instance, partible inheritance built into the management structure of lineage trusts easily translated into the rotation of management among major lines of descent. In addition to the common practice of the distribution of proceeds from the estate to all

male descendants, the rotation rule provided the fundamental principle that all lines of descent had equal rights to the management of the estate (Cohen, 1993; Faure, 1998; Zheng, 1992).

We now know enough about lineage trusts to feel fairly certain that far more often than not, lineages holding common trusts incorporated voluntary membership into their structure. In this sense, a lineage trust was not necessarily very different from a temple trust, the temple trust having been set up to provide for sacrifice to a deity rather than an ancestor. The sense of reality was created by the temple or the hall, a physical structure the appearance of which might dominate a neighborhood and at which collective activities were regularly carried out. But once accepted as a viable source of institutional foundation, a temple did not have to exist on the ground for the trust to operate. Reports from north China indicate that the ancestral hall was often represented essentially by a drawing posted on the wall in lineage sacrifice. The frequent use of the word *tang* (literally "hall") for the corporation raises the possibility that it was in fact a derivative of the physically standing "hall" (Cohen, 1990).

The holding of property by religious corporations, the participation of individuals within them, and the power relationships that ensued as a result show that beneath the veneer of religious worship, religious corporations served as political and economic alliances that were set up often to promote very specific ends. They conducted land reclamation, owned periodic markets, and provided the holding structures sometimes for quite complex business dealings, leaving day-to-day operations under the management of family firms. The lineage or village provided political and financial patronage and gave the family firms leeway in the management of contractual relationships. The merchant working on his own or in partnership backed by a series of holding operations within a patronage structure is essentially what gives the image that "networking" is particularly invoked in Chinese business.

The company

When Western merchants traded in China in the eighteenth and nineteenth centuries, the Chinese recognized that they were organized in the form of the "company" by applying a special term to their corporate presence, *gongsi* (Lee, 1996). By the last decades of the nineteenth century, the Western *gongsi* evolved from the chartered company to the corporation that was backed up by company legislation, and, in that form, came to be widely known on the China coast.

Companies backed by company laws gave the appearance that they had been registered with a government for the purpose of business.

Registration with governments not only gave companies definite legal standing but also definitive forms. The law might require that directors be appointed, that a distinction be made between limited and unlimited liability, that shares be issued under various specific circumstances, that directors observe various obligations to shareholders and to the government itself, and that some such requirements be laid out in the process of incorporation and winding up. Yet, it took almost half a century between the introduction of the company into Shanghai and the formal institution of a company law by China's government in 1904. Even then, the law did not result in many companies registering with the imperial government, nor did the institution of business change overnight. Yet, what needs to be emphasized is that the establishment of companies introduced into China an institution for business that went in a direction beyond business conducted via written contracts or the religious corporation. The institution opened new possibilities that were seized upon particularly in the 1930s and the 1980s.

The reason the introduction of the company was important to China has to do, again, with the position of the merchant in Chinese society, and directly related to this, the independence of business as business. Until the company law formally made provisions for business as a permitted activity, it was ambiguous, in law, if Chinese merchants had authority to conduct many businesses except as surrogates of officials, who conducted business, in their turn, as surrogates of the emperor. Chinese economic historians have long used the word "monopoly" to describe enterprises over which the imperial government claimed exclusive rights, such as mining, trading in salt, or even trading with foreign merchants. The imperial government granted the right to operate these enterprises to merchants, which right they might pass down the descent group. Merchants receiving such grants saw themselves as adjuncts to the officialdom, and aspired to status through the holding of official degrees and offices. More often than not, these enterprises would have resembled more networks built upon patronage than tightly controlled operations. In the salt trade, the combination of official and merchant interests in the monopolies was known as "official supervision and merchant management." This business structure survived into the last decades of the nineteenth century, and very much characterized the flagship of modern Chinese business in that period, the China Merchant Steam Navigation Co. (Feuerwerker, 1958).

Another reason the introduction of company legislation might make an impact on Chinese business practice may be found in the history of accounting. Traditional Chinese accounts had focused on cash flow; the

accounting standards laid down by company law required the balance of assets against liability. Fully aware that cash-flow accounts were poor reflections of profit and loss, Chinese partners kept their dividend within the firm in running accounts, for the assets of the firm might only fully be known if it was wound up. One might argue that the provision for capital accounting as required in company law enabled Chinese firms to expand their capitalization. Nevertheless, as noted by William Kirby, firms were slow to accept registration (Kirby, 1995).

It is not necessary to suppose that the introduction of company law spelled an end to patronage, but it nonetheless implied a fundamental change in ideology. The change had to do with the guarantee of property rights not by patronage but by law. The guarantee of property rights by patronage fitted well with the holding of property under religious corporations. As the ancestors or deities could not manage their own properties, by default, management fell to the stronger parties under which the principles of equity had been set up. The Company Law, promulgated in 1904, might not have challenged the power structure of the holding parties, but it would have given the semblance that recourse might be had outside the patronage structure. Moreover, the law was produced at the insistence of foreigners trading in China who sought a formal legal basis to settle the position of the compradore and the legality of Chinese people investing in Western companies, and it was created along with legislation that formalized the status of the merchant and the chambers of commerce.[1] Although the law, certainly, did not overthrow customary practices, its provision in a climate that was demanding change created a new avenue for business (Faure, 2006: 45–64; Kirby, 1995; Ma, M. 1995).

The finance market

Yet another reason for the importance of company law is that it was the thin end of the institutional inventions of the Western Commercial Revolution of the sixteenth century. The institutions that resulted from the sixteenth century gave rise to, apart from the business company, the banks, insurance, shares, and the stock market, just to name the most obvious. When we say that Chinese merchants in the nineteenth century conducting their business on the China coast and in Southeast Asia were extremely successful, it is just as well that we remember that unlike the Ming dynasty merchants. Their businesses were served by sophisticated financial institutions that had their origins outside China; for example, Western banks, shipping and insurance companies. In the second half of the nineteenth century, although Chinese merchants contributed to the finance market that was growing in Shanghai, the institutions that they made use of were for the most part not invented in China (J. Wang, 1985).

There must have been finance markets in China from as early a time as when Lu Buwei made his famous statement in the third century BCE on investing in politicians. Most entrepreneurs probably invested near where they lived, but, by the sixteenth century, the famous Huizhou merchants – merchants whose home county was located in Anhui province in central China – were collecting deposits and investing in pawnshop chains. We are far from understanding how such scattered businesses could have been managed, how credibility would have been established, and how dividend would have been paid, but no doubt local knowledge was also brought into the business operation, and their banking credentials were aided by their claim for deep commitment to filial piety, which included honoring debts incurred by their deceased fathers. However, there must have been a difference in scale between investing at a distance and investing near home, but that was dealt with not through the extension of control, but through what may be referred to as internal banking.

Chinese business at a distance was strongly characterized by internal banking, that is to say, the banker would enter into business as a partner, and that he would do so in a wide range of businesses in the search of good returns and in order to spread his risks. Such business, however, was essentially of a private, if not secretive, nature. The banker did not make known that he was willing to enter into business ventures except with those people with whom patronage relationships had been built up, nor would the banker be able to raise investment on the basis that he was willing to do so. A typical example would have been Chinese businesses in Southeast Asia, which were individually family owned, but which were, over substantial areas, interlocked through family connections, the cross-holding of capital and regular business transactions (Choi, 1995). Where banks worked primarily through exclusive networks, people who held capital but who did not have the resources to build up their own patron-client connections tended not to look for investment opportunities in business ventures. They would have fallen back upon land holding amid the ethos that would have considered security rather than risk as the rule of thumb for managing capital.

It goes without saying that the climate of investment where the investment market was poorly developed was not conducive to raising large sums of money for highly capital-intensive projects, such as, in the late nineteenth century, railway building. It would also not have been conducive to the development of a national debt. For much of the Ming, Qing, and the Republican eras, this very general description would have been true of the nature of investment, and the weakness of the indigenous

finance market was, quite aside from the reason of China's military weakness, precisely why foreign banks became so crucial in the development of China's heavy industry (Ma, Y. C. 1929; Lee, 1994).

The development of a finance market required much more than the private efforts of merchants. The capital that entered into the market would have been raised from willing shareholders, many of whom would not in their normal lives have considered themselves entrepreneurs. The strategic decisions that had to be made for capital investment would have had to be contingent upon assurances made by government that the government itself would recognize the investors' right to a monetary return. Investors would also have to become used to the idea that they held paper tokens of property that allowed most of them to trade their shares but not to interfere in day-to-day management decisions. To emphasize the survival of traditional business organizations in this transformation is to miss the point. Those traditional organizations that did survive when the finance market developed were to find the professionalism of the market quite at odds with the patronage structure that had evolved from family ties or religious corporations, as the next section will show.

A nutshell history of nineteenth-century changes

The slow and steady move toward company legislation did not begin with China enacting a company law in 1904. Businesses traded as companies in China before that came about. They did so in the Western enclaves which were opened for trade from the early years of the nineteenth century at a time when it was a moot point whether they registered with any government or paid any profits tax. When the company law was enacted in Hong Kong in 1865, it became possible for businesses to register in Hong Kong and to trade in the Western enclaves within China (Chung, 1998). The protection of companies registered outside Chinese jurisdiction, in Hong Kong or abroad, made an immediate impact on Chinese businesses. The history of this impact has been worked out succinctly by Chinese historians, who described it as "Chinese merchants attaching their capital to foreign firms" (*Huashang fugu*), a feature which recurred in the 1980s when foreign investment was permitted in special economic zones (T. P. Wang, 1994). In other words, Chinese merchants, instead of trading in their own names, invested in Western firms because the law provided divergent treatment for foreign and local investments. In the late nineteenth century, the practice was associated with the role of the compradore, which became a well-known feature of Western businesses in China. As Yen-ping Hao (1970) showed some time ago, the

compradore should not be construed only as an agent. Whether he was "principal" or "agent" was a thorny point of law for the Shanghai mixed court, but at least this much is clear: It was his personal guarantee which gave the firm credit among Chinese merchants, and this practice was carried onto into enterprises, such as Nanyang Brothers Tobacco into the 1920s, that might be given a more modern appearance by adherence to company legislation (Cochran, 1980). The 1870s and 1880s were very much a learning period for Chinese merchants in the treaty ports. They learned about the operation of companies from working with them and reading about them in the newspapers several decades before China enacted a Company Law (Lee, 1996).

The idea of the "company" also made its way into China via the finance market. The terminology might be all different, but the monopolies which were granted by the Chinese emperor for the running of steamship companies and mines, in at least one way, worked as chartered companies did in the West: The Chinese emperor's grant of a monopoly was a privilege on which capital might be raised. Previously, equity was provided through partnerships, in which the partners probably were acquainted with one another. Increasingly, through the 1880s and 1890s, even government monopolies sought to raise capital by selling shares. In those early days of share dealing, Chinese imperial monopolies retained two Chinese characteristics: The shares were guaranteed a dividend, which gave them a character more similar to a bond, and the emperor retained his right to appoint the chief executive. Guaranteed dividend and the chief executive by imperial, rather than shareholders', appointment beg the question whether these government enterprises were companies. The history of the first of these, the China Merchants' Steam Navigation Company, in the second half of the nineteenth century suggests that they certainly were.

It is unfortunate that the literature on the China Merchants' Steam Navigation Company is saddled with a moralistic overtone that does not take into account the realities of business. Those realities illustrate quite succinctly the difficulties faced by Chinese entrepreneurs as business practices shifted from a dependence upon ritual to one dependent upon company law.

Historians who study the history of the China Merchants' Steam Navigation Company argue to no end whether the senior executives of the company were officials or merchants, and Albert Feuerwerker (1958), who has written the classic account of the history of this company, found it nepotistic, corrupt and unable to live up to its claim of salvaging China's steam transport business from foreign competition. To take the last charge first, it has long been ingrained in the theory of the market that it is not

private vice that is necessarily evil, but that it is evil only when it does not add up to public benefit. China Merchants' Steam Navigation Company was founded on the understanding that it would manage steamers, but if it found the real estate market more of a money spinner, one should only expect that it would exploit its holdings of wharves and jetties up and down the Yangtze to turn a profit. The Chinese business history literature is sadly unrealistic in not acknowledging what every businessman knew in China, which was that rising real estate prices could make land development a very profitable investment, whatever claims are made about the enterprise's principal business. As for corruption and nepotism, there need be no defense of that in China's business climate of the 1870s. In those early days of the Chinese finance market, investors were cautious of the share certificate, and for that reason, China Merchants' Steam Navigation Company did not find it easy to raise share capital. Capital was raised, therefore, through private connections, and investors were assured by the presence of their friends and relatives holding office in the firm. Once entrenched, however, corrupt practices and nepotistic appointments were not easy to root out, and the company may, therefore, rightly be criticized for making no effort to do so when, by the 1880s, thanks largely to its success, the holding of shares in government enterprises had become quite attractive and a clearer delineation of management and ownership might be installed. As to the official or merchant background of its executives, China historians miss the point altogether by focusing on their origin. China Merchants' Steam Navigation Company was a strange hybrid as long as government, rather than shareholders, appointed its chief director. When the chief executive lost the backing of his mentor in the bureaucracy, he shifted quickly enough to the view that he should be appointed by the shareholders. By the early 1900s, with the enactment of Company Law, shareholders elected the company directors who might, at least, be made formally aware of company affairs through an annual report. It took China three decades, therefore, to learn the essentials of company governance, and government enterprises such as China Merchants' Steam Navigation Company were very much the experiments conducted in the process (Feuerwerker, 1958; Zhang, 1988; Zhu, 1994).

China historians know of the history of few companies to the same detail of China Merchants Steam Navigation Company. Yet such knowledge, gleaned from the company's operational papers rather than hearsay, is vital if we are ever to reconstruct a history of Chinese business. In two recent works, Elisabeth Koll and Kai-yiu Chan, working precisely on company records, show in considerable detail the essential features of this history from approximately 1900 to the 1930s.

Koll studied the very well-known spinning and weaving business of Zhang Jian in Nantong county. Nantong, located on the coast to the north of Shanghai, was, until the last years of the Qing dynasty, salt-producing country. Zhang Jian's contribution rested in his converting the salt fields to cotton cultivation, a feat which was only accomplished because he had both official backing and strong local contacts. Zhang raised the share capital which contributed to the mills, but the company operated more like a family business, for his brother ran the business while shareholders had minimum knowledge of what went on, few channels to express an opinion, and no channels which worked effectively on the chief executive. In place of accountability, Zhang exuded the air of the national politician that he was. The biographical literature stresses his origin in winning first place in the official examination in 1905. More relevant than that, however, was his participation in the electoral politics of the last decade of the Qing dynasty in Jiangsu province, where Nantong was located, and his successive stints in the cabinet during the Republic. The political patronage of the successful national politician of the 1910s paid off, for, as Koll found out, the mills were, for the most part, unprofitable propositions. Zhang's fortune was made, not from yarn and cloth, but from loans which were raised from government land grants on the pretext that cotton was needed to supply the mills, and, while the mills were ran on share capital, the land-development side of the business operation was more like a family enterprise. Koll also found out that the smoke screen of local construction, noted in most studies of Zhang Jian as an example of his civic consciousness, was quite costly to the industrial operation, involving Zhang's charity work funded by his business operations or his private theatrical company packaged as Nantong's local opera. It was not surprising, therefore, that the business collapsed with Zhang's death. By the 1920s, the banks were worried by the ever-increasing insolvency and in 1934 virtually took over the Nantong operations. Their treatment of Nantong in the crisis represents one of the rare documented instances we have of the impact that bank capital might make on business management, for by taking over the factories, they strengthened the hands of the company's financial control – based in Shanghai – and curbed the excesses which might derive from the whims of the chief executive. Nantong is an excellent example of the abuse of company resources when shareholders are totally unable to hold the CEO to account\ (Koll, 2003).

Kai-yiu Chan's study of the business empire of Liu Hongsheng in Shanghai deals with a different sort of company. In Liu Hongsheng, Chen confronts the transformation of the compradore into the independent

business man. Liu Hongsheng began his business career as compradore for the Kailuan Mines in Shanghai. Crafty and resourceful, he held shares in agencies with which he contracted on behalf of Kailuan, the conflict of interest being so obvious that he had to hide his shareholding interests from his principal. The resulting relationship was never easy, and so Liu Hongsheng put behind him his compradore's position, renegotiated his Kailuan contract, and set up on his own. He never looked back. He expanded his coal distribution business, and put his coal supply to work in a cement factory, producing cement at a time in the 1920s and 1930s when the building trade was booming. After 1927, Liu threw in his lot with the Guomindang government, becoming a prominent member of the new pro-Guomindang committee of the Shanghai Chamber of Commerce. With his new-found political influence, he put on the appearance of a supporter of scientific management, and backed the new government efforts to cartelize the major industries, winning for his own enterprise a substantial share of the cement market. All the while, Liu's business empire was actually managed along the traditional line of a finance office answerable to himself through which all funds into and out of his businesses were channeled. He implemented, essentially, an internal bank within his businesses, which unlike the scattered overseas Chinese operations, all of which came under his own control. This very traditional aspect of Chinese business, as Liu's experience demonstrates, can readily take on a form that is very close to financial control in a modern business. Liu probably did face cash-flow problems in the late 1930s, which he tried to solve by running a fully registered bank, taking deposits and possibly also government-issued currencies. He did not seem to have contemplated looking for shareholders. He would not have been the only successful Shanghai entrepreneur to shun the stock market. His contemporary Rong Desheng, who ran the largest number of spinning mills in all of China, kept his business within the family, making it quite clear that the financial reporting required by law did not appeal to him. With very rare exceptions, Chinese businesses remained family owned, and the weakness of the stock market as a source of capital for them could well be a reason. That reason, however, would be circular. More to the point, one might argue that the push factors in death duties such as implemented in the United Kingdom which forced families to give up control were absent in China, while the concept of shareholding, divided among surviving descendants, actually helped to maintain unity of control even as family property was divided (Chan, 2006).

By the 1920s, Shanghai was a booming economy in which new and successful companies were founded on partnership capital, whether or

not they were registered with the central government. There were stock exchanges, but few Chinese companies were floated and they dealt, in the main, with bonds and commodity futures. Changes were being introduced in the area of commercial papers, one of which, noted by the economist Ma Yinchu, consisted of papers of lading being provided by the railways and warehouses, which made it possible for banks to make loans on goods in transit as collateral. A change such as this had substantial impact on inland cities such as Wuhu which were centers of the rice trade. But it is easy to mistake Shanghai consumerism for modernity in business methods. Yet, as also pointed out by Ma Yinchu, it was precisely the shortage of commercial papers which inhibited the growth of banking in China. Chinese businessmen did not write cheques; their practice consisted of keeping accounts which were periodically cleared. They required no draughts to pay for their orders, and so banks had few bills to discount except for what was issued by the government (Ma, 1929). Although the impression from the current literature may be that commercial papers – bills of various sorts – had a place in Chinese business, a careful reading would show that they were much more prevalent in the last few decades of the nineteenth century than earlier. Our impression that bills were important comes from the operations of the Shanxi banks primarily after the Taiping Rebellion when provincial taxes might be remitted to Beijing by check. Native banks, including some of Shanxi origin, survived in Shanghai into the 1920s, not because of any cultural barrier but because the new Chinese commercial banks, such as the Bank of China, were severely constrained by politics (Huang, 1992). Even then, it was the modern banks, such as the Bank of China, Jincheng or Shanghai Commercial Savings, which were examples of reform, taking over the remittance business of the "native banks," pushing into industry and high-street savings.

Throughout the late Qing and the Republican era, Chinese banks were quite incapable of underwriting substantial industrial loans; therefore, for mining operations and railway building, the Chinese government turned to the foreign banks. It would be unfair to attribute the financial weakness of Chinese banks to business practice alone, for a substantial part of the foreign banks' standing in China emerged from the flexibility they derived from being involved in servicing China's substantial foreign loans. Moreover, the problem was aggravated by China remaining on the silver standard when the world had moved toward gold, with the result that China's foreign loans, denominated in gold, had to be repaid with considerable premium as the international price of silver dropped continuously in the years between the two world wars. It might even be

argued that by the 1930s, if the Chinese government were to introduce a paper currency, there was little alternative to centralizing banking, and centralizing banking only made it easier for government to devalue the currency in a situation of deficit financing. Considering the nightmare scenario that the Guomindang government faced in the 1930s – world economic depression, the price of silver sharply fluctuating on the international market, internal and external war, all coming within a decade – it presented a credible economic policy which it had little time to try out. Banking remained its weakest link, and the closeness of banking and government policies, which became a trait in Chinese financial management, continued into the reforms of the 1980s and 1990s.

The modernisation of Chinese business

From the time the Company Law was introduced in 1904, China moved on. The fact that returned students such as Ma Yinchu, trained in the economics departments of the leading universities of the United States, could return to China, be given appointment at the Bank of China, be asked to speak regularly on the economy, and have his lectures written out and published, suggests that a demand for knowledge of the economy was eagerly sought after. If Liu Hongsheng in the 1930s found it to his advantage to advocate scientific management, the groundwork for an interest in business administration had been prepared in the previous decades. The change in mood went well beyond the media. The change in management in many ways took the shape that might resemble an echo of the drive toward rationalization in the West. In the mills of the Rong family, this meant the factory management attempting to gain direct control over their workers, cutting out the intercession of the sub-contractors in the process. It also meant a vigorous interest in accounting practices and the emergence of the accountant advocating Western accounting methods. Although the most prominent accounting school, the Lixin, was founded in Shanghai in 1928, even in the early 1920s, companies operating in Shanghai which were dependent on share capital retained the services of accountant Xu Yongzuo to audit their accounts. One might say that some impetus toward independent audit was given by the Company Law of 1904, but the weakness of the central government makes it unlikely that the law was very seriously enforced. Rather, for different reasons, most of which had to do with the raising of loan or share capital, some business companies saw it fitting for their image to be able to produce audited balance sheets in the 1920s, while by the 1930s, cost accounting was becoming a focus of interest. There should be no attempt to underplay the

professionalism of the traditional Chinese businessmen, and yet one can speak of the 1920s and 1930s as the professionalization of Chinese business. The professionalization of business, set off with the requirements of company legislation, continued into the 1950s (Gardella, 1992; Gao, 1985; Guo, 1988; Chen and Jin, 1999; Xie, Li and Wang, 2000).

To appreciate some of these changes which, in time, would be looked upon as a history of the modernization of Chinese business, it is necessary to return to the 1904 Company Law. True enough, few companies registered, but the law had its impact on professionalization. The law reform of that decade created law schools and lawyers. Not that China had not had lawyers in the past, but when the magistrate was also the judge, as he was in almost the entire length of dynastic China, law was such a tool of administration that the advocate for the defense appeared as a superfluous opposition to government efficiency. Lawyers, and law schools, found their independence only after the legal reforms. Likewise, the 1904 Company Law, by requiring the keeping of accounts to reflect assets and liabilities, created the professional accountant. Traditional Chinese accounts had concentrated on cash flow, and it was the Company Law which shifted the focus, and hence created the need to train accountants in accounting schools. The new professionalism fed into a wider train of events. Professionalism was coming about also in other occupations: the engineer, the Western-style doctor, the school teacher, the journalist, and even the army officer who were now produced by the military academies.

The professionalization of business in China, therefore, has to be looked upon as a history that runs parallel to the more well-known record of the tightening of state control from the 1930s to the 1970s on the mainland, and the relaxation of the state's grip thereafter. It is much more complicated than that, however. The generation of lawyers, accountants and engineers produced in the 1920s and 1930s survived into the 1950s and 1960s, and although private business was dismantled under socialism, the expertise was transformed but not destroyed. To take accounting as an example, state ownership meant effectively that profit was transformed into a tax, and so the tax-accounting mentality dominated. But the accountants who were trained in the 1920s and 1930s who had made the leap from a concentration on cash flow to the reckoning of profit from capital accounting remained converted, they and their students were to resurface in the early 1980s when private enterprise was once again encouraged. The recent study by Qiwen Lu (2000) into the computer manufacturers of the 1980s and 1990s indicates that a great deal of engineering research accumulated in the state sector in earlier decades, which was commercially exploited only by the 1980s.

Conclusion

The sea change in business practices between 1500 and the 1980s that China went through can be summarized as partnership founded on contracts as a predominant mode of operation, giving way to the forces of the finance market. The contractual traditions of late imperial China, coupled with the focus given to ritual practices, was highly successful for its times. That tradition produced the rural market, the artisan workshop, family firms, lineage holdings and state-owned enterprises that devolved easily into decentralized private networks. Those institutions had arisen because on the one hand, the state did not grant business a free rein, and on the other hand, the state itself was incapable of organizing for business. The net result was a business structure that depended heavily on patronage and internal banking. The institutions that were developed along the Western commercial tradition placed a different emphasis on the way business might interact with the rest of society. In that tradition, business companies maintained their separate existence through recognition by the state as corporations that had been set up for business. Established for the purpose of business, the enterprise could break away from family ownership and management, even though it did not always do so. Where it intersected with the financial market, however, the demands of the financial market tended to leave their marks on the business: The market demanded accountability of the executives and some transparency in their managerial decisions. The culture that valued closely knit personal relationships had to contend with demands for opening those relationships to inspection.

The transition is not yet complete, but the main pieces fell into place in the 1990s. Despite the political ups and downs that China had gone through in the last century, no sudden break marked the evolution of business practices and no business practice was totally displaced. Certainly, at different times between 1949 and the end of 1978, private business was anathema. The extremes in the Great Leap Forward and the Cultural Revolution drove the economy to practical standstills, but in between, and even in the 1970s, the argument was kept alive that economic incentives had to be associated with contractual arrangements between units of work and the state-owned enterprise. This main-stream thinking was taken to its conclusion in the economic reforms of the early 1980s. Under the banner of the "responsibility system," rural households contracted for farm land just as a managerial section of a state enterprise might contract factory production. Yet, by the mid-1980s, the different impact in the two sectors was becoming apparent. Rural households, and rural enterprises, producing outside the state quotas, moved forward by leaps and bounds, greatly benefited by the increase in foreign trade and investment,

while the state industries stagnated. By the mid-1980s, therefore, official thinking was beginning to change to allow much more flexible enterprise restructuring. This was achieved through the introduction of shareholding into state enterprises, and, with the adoption of the Bankruptcy Law in 1986, the acceptance of bankruptcy at least as a principle. The adoption of the Company Law in 1993 proved a new stage in the market economy, while the growth of what came to be known as enterprise conglomerates (*qiye jituan*) by the early 1990s shows that corporate ownership through a shareholding structure had been achieved. Although a great deal of transformation was yet to come, especially in monetary and banking reforms, in the very short period of just about fifteen years, Chinese enterprise structure leapt from a socialist model to the open equity market model, putting it on a solid footing for the modernization of Chinese business.

Note

1 Compradores were Chinese people who held positions in Western companies and who served in various capacities, but essentially represented the company to the Chinese community. Their position under Western law was ambiguous. They acted as agents for the company, but they also conducted business on their account. In 1885, a law suit on the responsibility of the company in the event that a compradore defaulted went as far as the British Privy Council. The question of the legality of Chinese investment arose in 1898 when Chinese investors were called upon to honor their unpaid share capital upon the collapse of the Bank of China and Japan. Their responsibility for the payment was abrogated by the Chinese judge in the Shanghai court who ruled that Chinese share holding in Western companies was illegal as it had not been provided for by treaty. The judgment was regarded as devastating for Western companies, many of which had drawn heavily on Chinese investment (Faure, 2000: 62–64).

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