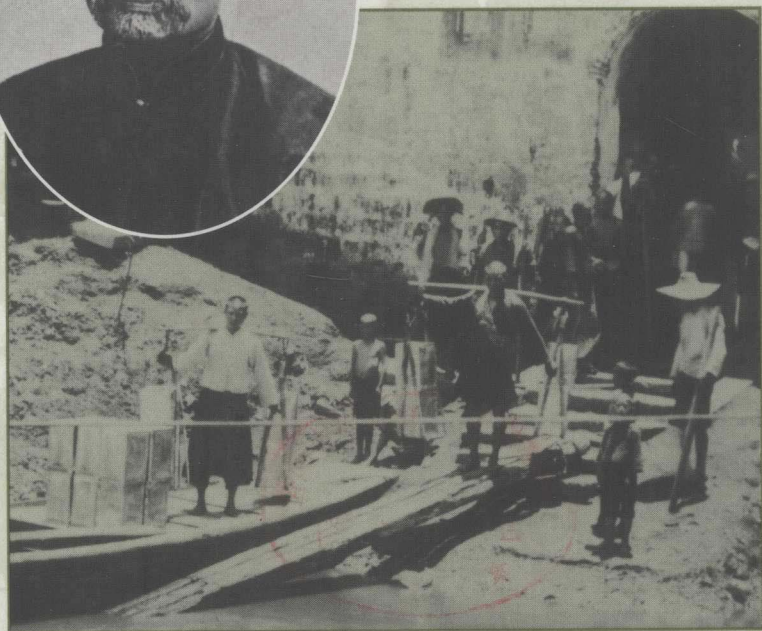
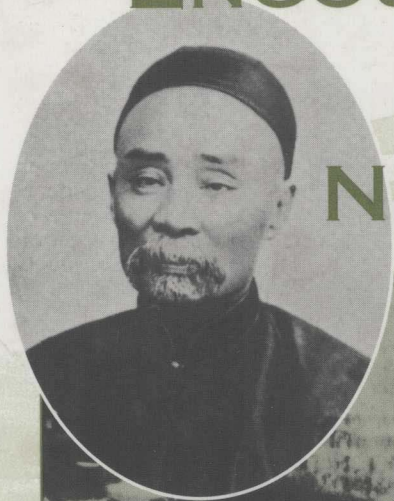

ENCOUNTERING CHINESE NETWORKS



WESTERN, JAPANESE,
AND CHINESE CORPORATIONS
IN CHINA, 1880-1937

SHERMAN COCHRAN

Encountering Chinese Networks

*Western, Japanese, and
Chinese Corporations in China,
1880-1937*

Sherman Cochran

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Introduction

Corporations versus Networks

When I landed in China, I felt that someone had taken me by the heels and thrown me into the Pacific Ocean. I had to swim out. The thing was overwhelming. Here was a country of four hundred million people extraordinarily true to their civilization. . . . Their ways, unlike though they were to mine, were worthy of my respect.

My conviction, therefore, was that I ought to trade with these people as nearly as possible according to their ideas. . . . I knew that not in my lifetime could I educate a handful to my ways; I must adapt myself to theirs.

That is the word in either cigarettes or civilization—adaptability.
James A. Thomas, “Selling and Civilization”

James A. Thomas wrote these words after presiding over British-American Tobacco Company's operations in China for almost twenty years, and he expressed here a dilemma that many managers have faced on entering China's market in the present as well as the past: how to retain control over a large corporation while adapting its “ways” to Chinese “civilization.” By his “ways,” Thomas seems to have meant his corporation's organization and practices, and within his concept of “civilization,” he seems to have included networks of Chinese merchants and workers that his company encountered in China. The relationship between these two subjects, corporations (with their “ways”) and networks (in Chinese “civilization”) is the subject of this book. Have Western, Japanese, and Chinese corporations in China imposed new organizations and practices and transformed existing Chinese networks? Or have Chinese networks resisted corporations' organizations and practices, causing corporations to assign or delegate authority to networks?

This book explores these questions historically by focusing on Western, Japanese, and Chinese corporations' relations with networks of Chinese merchants and factory workers during the late nineteenth

and early twentieth century. Each of the chapters traces the history of one of six companies—two Western owned, two Japanese owned, and two Chinese owned. John D. Rockefeller's Standard Oil Company and James B. Duke's British-American Tobacco Company originated in the West and dominated worldwide markets to such an extent that they became known as "the Oil Trust" and "the Tobacco Trust." Mitsui Trading Company and Naigai Cotton Company also distinguished themselves—Mitsui as Japan's biggest overseas trading company and Naigai as Japan's biggest overseas manufacturer of cotton textiles. And Shenxin Cotton Mills and China Match Company became China's biggest enterprises in their industries.

In all of these cases, it is argued here, corporations encountered and interacted with networks. In theory, a corporation may be clearly distinguished from a network because one is hierarchical and the other is not. According to Walter W. Powell's theoretical distinction, hierarchical structures have "clear departmental boundaries, clean lines of authority, detailed reporting mechanisms, and formal reporting procedures"; and, networks, by contrast, emphasize "lateral forms of communication and mutual obligation."¹ But in practice, as shown in the following chapters, corporations and networks were not entirely distinct from each other. On the contrary, in every case corporations and networks crossed the boundary drawn in this theoretical distinction and readily interacted with each other in a variety of dynamic relationships that changed over time.

Before describing these interactions between corporations and networks in Chinese history, it is worth considering whether corporations and networks have followed a similar historical pattern outside China. Have Western corporations in Western history, Japanese corporations in Japanese history, and Chinese corporations in the history of the overseas Chinese all interacted with social networks? According to leading authorities on these subjects, the answer seems to be no.

ISSUES IN HISTORY OUTSIDE CHINA

Specialists on the history of Western, Japanese, and Chinese corporations outside China have all made the distinction between corporate hierarchies and social networks, and they have not viewed these hierarchies and networks as mutually interdependent. In fact, they have argued that successful corporations have developed distinctive Western,

Japanese, or Chinese ways of doing business precisely by relying on hierarchies to the exclusion of networks (in the cases of Western and Japanese corporations) or networks to the exclusion of hierarchies (in the case of Chinese businesses).

The Western path to success for corporations has been most fully staked out by the historian Alfred D. Chandler, Jr. In amply documented books on Western corporations in Western history during the late nineteenth and early twentieth century, he has argued that the successful ones proceeded from personal capitalism (based on networks) to managerial capitalism (operating through hierarchies). In a recent comparison of American, German, and British corporations, for example, Chandler has concluded that American and German firms surpassed British firms because they made this transition, abandoning “personal (nonhierarchical) management” (which British firms retained) and replacing it with impersonal “managerial hierarchies” to achieve tighter bureaucratic control over the major functions of industrial enterprises—purchasing, production, and distribution.² Between the 1880s and 1910s, the Western corporations that moved down this path thus acquired new “organizational capabilities” that allowed them to carry out nothing less than a “managerial revolution” in Western history.³

The Japanese path to success for corporations has also been discussed by historians. Several specialists on Japanese business history have noted that Japanese corporations constructed managerial hierarchies that exercised control over distribution in the market and production in the factories in Japan more closely than American corporations did in the United States during the nineteenth and early twentieth century. William D. Wray has replied to Chandler’s characterization of American corporations by observing that Japanese “managerial hierarchies operated at levels lower than those in American companies. . . . By contrast [with corporate hierarchies in America], in Japan the hierarchies extended *downward into* the operating units where salaried managers served first as members and then as heads of the section within the units.”⁴ Kawabe Nobuo has cited examples of Japanese firms’ successes at reorganizing local Japanese wholesalers into sales companies known as “distribution *keiretsu*” that acquired the “power to control wholesalers,” and Yui Tsunehiko has concluded that the typical American firm kept its “managerial hierarchy . . . concentrated in the corporate head office. . . . In contrast, Japanese enterprises tended to allocate their expertise and personnel heavily to the factories.”⁵

A third path has been marked out to describe how overseas Chinese businesses have achieved success. Up to now, historians of the overseas Chinese have not traced this path clearly outside China through the late nineteenth and early twentieth century (the period covered by Chandler and the Japan specialists cited above), but sociologists have done so with reference to Chinese businesses outside China in Taiwan, Hong Kong, and Southeast Asia since World War II, and they have concluded that Chinese businesses have matched Western and Japanese businesses in efficiency by depending on social networks rather than corporate hierarchies. "In the Chinese case," according to one sociologist, Wong Siu-lun, "entrepreneurs tend to dominate the market by activating particularistic ties such as regional networks rather than by building up large, impersonal corporations."⁶ Other sociologists, Edward Chen and Gary G. Hamilton, have described the difference between the Chinese way and the Western way by contrasting "the network characteristics of the Chinese economy [that] are rooted in such local institutions as kinship and regionality" and the "firm autonomy in the West [that] rests upon strong states and legal institutions."⁷ Under Hamilton's leadership, several scholars have participated in an ambitious comparative study of "network capitalism," and they have made a point of distinguishing between Western corporations with hierarchical organizations, on the one hand, and Chinese businesses with social networks, on the other. This distinction has been concisely summarized by S. Gordon Redding: "In many Western economies, the main efficiencies in coordination derive from large-scale organization. In the case of the Overseas Chinese, the equivalent efficiencies derive from networking."⁸

These studies of Western, Japanese, and Chinese businesses outside China, as summarized here, might seem to resolve the issue of how Western, Japanese, and Chinese businesses have differed historically from each other. Outside China, one might infer from these interpretations, businesses have succeeded in the Western way by replacing social networks with corporate hierarchies; they have succeeded in the Japanese way by doing the same with even deeper hierarchies; and they have succeeded in the Chinese way by rejecting corporate hierarchies in favor of social networks. These categorizations are neat, but they raise questions about the interpretations on which they are based. Have Western and Japanese corporations achieved success historically by using hierarchies without networks, and have Chinese businesses done so by relying on networks without hierarchies? Or have the specialists cited here adopted approaches that have caused them to underestimate the inter-

actions between corporate hierarchies and social networks over the course of time?

In his portraits of Western corporations in Western history, Chandler has convincingly pictured them as dynamic historical actors constructing hierarchies, but he has left the impression that they have moved through time unopposed. In his descriptions of hierarchical corporations and their takeovers of family firms, he has virtually ignored resistance from family networks to these takeovers. Similarly, in his account of corporations extending direct control over marketing and manufacturing, he has chosen not to investigate social networks of local merchants and factory workers even though other scholars have questioned whether local merchants willingly acquiesced to corporations' direct control over the marketing of goods⁹ and have argued that factory foremen jealously guarded their autonomy and tenaciously resisted corporations' attempts to achieve direct control over the hiring and firing of workers in the United States and Britain between the 1910s and the 1930s.¹⁰ Chandler's numerous and well-documented examples leave no doubt that Western corporations in Western history made use of corporate hierarchies, but his interpretation also leaves open the unexplored possibility that these corporations encountered and interacted with social networks that have received little attention in his books.

Like Chandler, historians of Japanese business have concentrated on the construction of corporations' managerial hierarchies and have minimized or omitted encounters with social networks of merchants and workers. In descriptions of Japanese corporations' direct marketing in Japanese history, for example, Yui has said these corporations engaged in "piggy backing . . . on the well-used sales channels for traditional products"; Kawabe has claimed that corporations "reorganized existing wholesale systems"; and W. Mark Fruin has suggested that they "labored to establish sales channels."¹¹ But these historians have not characterized the social networks of merchants in the "sales channels" and "wholesale systems" or discussed the interactions between Japanese corporations and merchant networks. Among Japanese business historians, Fruin has perhaps made the strongest case for corporations' effects on workers—"the importance of enterprise policies for promoting social change in work structures and meanings"—and he has shown awareness of Japanese corporations' efforts to bring previously autonomous Japanese factory foremen and workers under managerial control.¹² Nonetheless, like other business historians, he has paid little attention to the activism of foremen and networks of workers who,

according to labor historians, aggressively resisted the corporations' impositions of authority in Japan until the first years of the twentieth century.¹³

While Chandler and Japanese business historians have left the impression that Western and Japanese corporations moved unopposed through time, Hamilton and other sociologists writing about contemporary East Asia discuss businesses as though they are fixed in time. By drawing a seemingly timeless distinction between Western businesses with hierarchies and Chinese businesses with networks, they have run the risk of essentializing Western and Chinese businesses (not to mention Japanese ones). Their Western/Chinese dichotomy might easily be construed to mean that each business has been stuck with an immutable approach either as a Western firm using hierarchies or as a Chinese firm relying on networks. This distinction helps to heighten awareness of companies' predispositions toward their respective Western, Japanese, or Chinese business cultures, but it does not allow for the possibility that a corporation (regardless of whether it was owned by Westerners, Japanese, or Chinese) learned to deal with and make use of both hierarchies and networks.

In short, these interpretations of business history outside China are valuable but should not be accepted uncritically. On the one hand, they provide a convenient point of departure for this book because they delineate three approaches—Western corporate hierarchies, Japanese corporate hierarchies, and Chinese social networks—that were all adopted by corporations in China during the later nineteenth and early twentieth century. On the other hand, their delineations along these lines should not be taken to mean that businesses in China never deviated from three distinctive and unchanging ways of doing business—a Western way, a Japanese way, and a Chinese way. As shown in this book, Western, Japanese, and Chinese corporations all experimented with numerous “ways” of doing business in the course of their interactions with social networks in Chinese history.

ISSUES IN CHINESE HISTORY

Like specialists on businesses outside China, specialists on businesses in China have also distinguished sharply between corporate hierarchies and social networks. In each China specialist's choice of topic, he or she has almost invariably investigated either a corporate hierarchy or a social network, not both. Perhaps for this reason, scholars writing on this

subject have produced conflicting interpretations of how hierarchies and networks affected each other in China during the late nineteenth and early twentieth century. In nearly every case, those researching corporate hierarchies have concluded that these hierarchies successfully imposed their authority on networks, and those researching networks have concluded that the networks successfully resisted hierarchies' attempts to impose authority.

In studies of Western corporations and Chinese networks, scholars have differed over the issue of who controlled the marketing of Western-made goods in China. On one side, Western scholars researching the worldwide operations of Western-based multinational corporations and Chinese scholars concerned with the effects of economic imperialism have argued that during the late nineteenth and early twentieth century Western corporations successfully introduced hierarchies to exercise control over marketing in China no differently than in other countries. Mira Wilkins, a leading specialist on the history of American multinational corporations, has advanced this argument and has cited several examples, including Standard Oil Company and British-American Tobacco Company, which are the subjects of chapters 2 and 3. "Just as in Europe, so in China," she has remarked about American businesses' adoption of direct marketing, "companies with new products took the lead."¹⁴ While Wilkins has investigated Western managers' marketing strategies in Chinese history, the Chinese historians Wang Jingyu, Huang Yifeng, and Nie Baozhang have conducted research on how these strategies were carried out by Western corporations' Chinese compradors, and they have reinforced Wilkins's conclusions by characterizing Chinese compradors as compliant subordinates who remained under Western managers' full control (*kongzhi*) in corporations' managerial hierarchies.¹⁵

On the other side of this issue, several specialists on Chinese economic history have reached exactly the opposite conclusion. Never, they have maintained, did Western (and other non-Chinese) corporations in China wrest control over marketing from Chinese merchants at any time during this period. Rhoads Murphey has noted that Western businesses faced a series of formidable obstacles such as the language barrier, which they "never significantly dented," and he has concluded that on Chinese merchants' "home ground [Westerners] never . . . replaced [Chinese] as the commercial manager of the domestic market either for imports or for exports."¹⁶ In line with this interpretation, Hao Yen-p'ing has called attention to Western corporations' limitations because

of another set of barriers—this one deriving from Chinese loyalty to social networks based on the values of “familism and regionalism.” Lacking Chinese family and regional ties, Western firms could not establish a relationship based on trust between Chinese and themselves. So, according to Hao, they delegated authority to Chinese compradors who—far from being compliant subordinates—remained independent merchants and by no means slavishly conformed to all of the dictates of their Western superiors in Western corporations’ managerial hierarchies.¹⁷ As summarized by Dwight H. Perkins, the consensus among these China specialists is as follows: “Foreign merchants . . . were never able to compete successfully with Chinese merchants on the Chinese domestic market. . . . As Chinese merchants increased their knowledge of the requirements of foreign markets and sources of supply, even foreign trade gradually passed into Chinese hands.”¹⁸ Perkins’s use of the word *never* (which also was used by Murphey in two of the quotations cited above) allows for no exceptions throughout the late nineteenth and early twentieth century.

On Japanese corporations in China, specialists have recently started another debate—this one on the history of relations between Japanese management and Chinese labor. On one side of the argument, Peter Duus has done research on Japanese management of cotton mills in early-twentieth-century China, and he has concluded that Japanese corporations successfully reorganized and reformed Chinese workers. Using corporate hierarchies, these firms replaced a Chinese system of indirect labor recruitment (which had been carried out by Chinese labor contractors) with a Japanese system of direct employment and training, according to Duus. As a result, Japanese corporations were able “to transform [Chinese] labor recruits who came illiterate, uneducated, and ‘ignorant of the elements of cleanliness and sanitation’ into a disciplined work force.”¹⁹

On the other side of the argument, Emily Honig has used documentary sources and oral interviews to learn about Chinese women working in the same cotton mills during the same period as described by Duus, and she has concluded that the Chinese system of recruiting and training workers was emphatically not transformed by Japanese corporations. “In form, at least,” Honig has acknowledged, “the Japanese had the ingredients of a rational hiring procedure” for direct employment of Chinese workers in Japanese-owned mills in China, but in practice the Japanese failed to carry out this procedure. When attempting to assert their authority, Japanese mill owners found that Chinese workers were

bound to their Chinese foremen's social networks, which were based on real or fictive kinship relations and native-place ties, and Japanese managers further discovered that Chinese foremen were connected with powerful gangs that "could mobilize the forces of a massive network" against any corporation's attempt at direct managerial control over workers. "Some mills," Honig has concluded, "tried to institute such a system [for directly recruiting and training Chinese workers] in the mid-1920's and early 1930's, but when they were not defeated by the objections of [Chinese] foremen who resented this intrusion on their power to hire workers, the [Chinese] gangs often usurped this power."²⁰

In writing about Chinese businesses in China, historians have contradicted each other no less flatly. For the adversaries in this debate, the issue is whether corporate hierarchies or social networks prevailed within Chinese businesses (rather than between Chinese businesses and Chinese merchants or workers). On one side, William T. Rowe has argued in an influential history of the city of Hankou during the eighteenth and nineteenth centuries that Chinese guilds developed corporate structures that closely resembled Western ones. Citing examples of their joint-stock business partnerships and other sophisticated institutional arrangements and financial techniques, he has described these guilds as "internally constituted along increasingly nonparticularistic lines [so that they] tended to become proto-capitalist corporations." He has gone so far as to say that these Chinese guilds possessed functional equivalents of all the elements of Western-style capitalist enterprises except one, industrial production, and he has hypothesized that in the twentieth century they could easily have added it. In his words, "The 'modern' element missing from this system was, of course, industrial production. There appears to be little reason, however, to think that investment in industry could not have been subsequently incorporated into the complex financial machinery at guilds' disposal."²¹

On the other side of this debate, William C. Kirby has called into question Rowe's interpretation: "Although Rowe argues that some Chinese business organizations would have passed Max Weber's test of 'economic rationality,' this has not been the dominant view of scholarship." Identifying his own interpretation with the dominant view, Kirby has documented successive Chinese governments' legal efforts to induce Chinese businesses to adopt Western-style impersonal corporate structures during the early twentieth century, and he has concluded that Chinese businesses ignored or rejected these laws and remained committed to Chinese social networks. "With its own organizational structures