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Corporate Management in Modern China : A Study of the Modern Enterprises of Mr. Rong, Industrialist, of Wuxi

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Corporate Management in Modern China —A Study of the Modern Enterprises of Mr. Rong, Industrialist, of Wuxi—

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FORWARD

This report aims to take a look at the management of the "Modern Enterprises of the Brothers Rong", industrialists, of Wuxi, the most important of all the enterprises being operated with "domestic capital" in modern China, with a view to demonstrating the unique conditions of corporate management at that time.

A variety of subjects, such as the characteristics of management and production organization, and management and labor behavior patterns in the modern enterprises, will be discussed, using as reference the recently published "*Rongjia jiye shiliao*" (The Source materials on the history of the Modern Enterprises of the Brothers Rong, Shanghai renmin chu ban she, 1980.)¹⁾ This analysis of the management of one of the major enterprises of modern China will concentrate on the particularly Chinese quality apparent in the management of the modern enterprise, and this will in turn provide specific material to be used in comparing corporate management in China with that in Japan.

1. HISTORY OF THE RONG FAMILY

The Rongs' modern enterprises were founded and run by the Rong brothers, Rong Zong-jing and Rong De-sheng, capitalists from Wuxi, Jiangsu. In this section, we will give a brief history of the Rong family explaining how the Rong brothers accumulated capital before they launched into the management of modern enterprises.

It is said that the Rong family moved to Wuxi during the Zheng tong period

(1427-1464) at the beginning of the Ming Dynasty²⁾, and that they settled there to be known as "literates" with a view to becoming government officials. They also engaged in trade and agriculture. Meanwhile, according to the Rong's "Zongpu" (the genealogical table), the clan included more than one thousand households in 1872.³⁾ Moreover, it produced such distinguished characters as Rong Ru-ji⁴⁾, in the mid-nineteenth century, who passed the imperial examination and gained the *juren* degree and the *jinshi* degree, and Rong Zhi-ying, in the late nineteenth century, who founded and ran one of the four major raw cotton wholesale businesses in Shanghai, the Guangda Raw Cotton Wholesalers, (Guangda *huahang*).⁵⁾ Their achievements contributed to the establishment of the Rong family's reputation as a "Big Family" by the end of the nineteenth century, when the Rong brothers entered business.

The Rong brothers' father Rong Xi-tai⁶⁾ was born into this illustrious family. However, partly because of the traditional Chinese custom of divided succession, his inheritance was somewhat modest. It is hard to tell whether he had wanted to get a formal education in order to pass the imperial examination, but judging from the fact that he was apprenticed to an ironmonger (*yefang*) as a youngster, he seems

- 1) In preparing this report, the following theses have been referred to: HUANG Yi-feng (黃逸峰)「旧中国荣家資本的發展」HUANG Yi-feng (黃逸峰) and Jiangdou (羌鐸) (eds.)『中国近代經濟史論文集』1981. (『學術月間』1964 5 期.)
JIANG Shao-zhen (江紹貞)「荣宗敬・荣德生」Lixin (李新) and SUN Si-bai (孫思白) (eds.)『民国人物傳』Vol. 1 中華書局 1978.
CHEN Wen-yuan (陳文源) and WU Jin-chu (吳錦初)「近代中国民族工業的一個標本—荣家企業發展概述—」『江海學刊』1982 3 期.
KANAMARU, Yuichi (金丸裕一)「中国紡織企業史研究—1910~20年代の申新紗廠—」『近きに在りて』No. 5 1984.
ŌNO, Mitsunori (大野三徳)「国民革命期に至る荣家企業の展開とその性格—茂新福新製粉. 申新紡織会社—」『高知工専學術紀要』No. 20 1984.
ŌNO, Mitsunori (大野三徳)「国民革命期に至る荣家企業と軍閥支配」『歴史学研究』No. 534 1984.
BAI Zhen-zheng (柏珍鍾) and SHENG Bin (盛斌)「從荣家企業的發展看資本積累在民族資本企業中的作用」『歷史教學』1984 5 期.
- 2) RONG Ru-fen (荣汝棻)「重修宗譜序」『荣氏宗譜』Vol. 1, the second edition, 1911.
- 3) FENG Gui-fen (馮桂芬)「馮桂芬序」RONG Ru-fen (荣汝棻) (ed.)『荣氏宗譜』Vol. 1 1872.
- 4) His pen name was Zuozhou (作舟).
- 5) RONG Ru-fen (荣汝棻)『荣氏宗譜』Vol. 21. JIAN Zhong-han (錢鐘漢)「抗戰前無錫六個民族工業系統的原始資本及其發展变化」Jiangsu jinxindai jingjishi wenji (江蘇省中国現代史学会) (ed.)『江蘇近現代經濟史文集』1983.
- 6) TANG Wen-zhi (唐文治)「荣熙泰先生傳」TANG Wen-zhi (唐文治) (ed.)『茹經堂文集』Vol. 4 Chap. 7 1942. This biography throws light upon patriarch Rong Xi-tai's policy of educating Rong Zong-jing and Rong De-sheng, the Rong brothers' strong inclination towards unity through Kinship and local Fellowship, and their enthusiastic interest in social (construction and contribution of Nanyan University Library and establishment of School of Commerce) and philanthropic actions.

to have early on abandoned his ambition of becoming a government official. He then became an accountant at an ironmonger (*yefang*) in a town in Zhejiang. The fact that he had at this time less than twenty mu of land in Wuxi, where his wife reputedly planted mulberry trees for the purpose of sericulture, tells us that his economic status was at best that of small landlord or well-to-do farmer. The Rong brothers spent their early days in this family environment. Both received only a conventional education at a private school in their hometown, and it is not recorded that they were taught by any particularly notable persons.

The elder brother, Rong Zong-jing went to Shanghai in 1886 at the age of fourteen, to start his career by being apprenticed to an ironmonger (*yefang*). In the following year he became a trainee at a traditional local bank (*jianzhuang*). After the regular three-years training period, he was employed by another *jianzhuang*, remaining there until the bank went into liquidation in 1894. The younger brother, Rong De-sheng, became a trainee at a *jianzhuang* in Shanghai three years after his brother. Their father, Rong Xi-tai, who had moved to Guangdong some time before, obtained there the lucrative post of minor tax collector for Guangdong Province through the introduction of Rong Jun-ye, of the same clan, who was a private consultant for Zhang Zhi-dong, the Governor-general of Guangdong and Guangxi. This was in 1883. During his tenure of more than ten years he saved a considerable amount of money through his various emoluments.

In 1892 he recalled his second son, Rong De-sheng, from Shanghai to let him take over the post of accountant in the *likin* bureau of Guangdong Province (a government agency responsible for collecting Inland Passage Tax). In 1896 both Rong Xi-tai and his son, Rong De-sheng, returned to Wuxi. That same year the latter founded the Guangsheng traditional bank (Guangshen *jianzhuang*) in Shanghai, after having discussed the matter with his elder brother, Rong Zong-jing, and with 1,500 yuan invested by their father from the fortune he had built up during his tenure as a minor tax collector. Though Guangsheng started as a jointly-financed enterprise with three other investors in addition to the brothers Rong, these three withdrew from the enterprise two years, leaving it to be run solely by the brothers. In 1898 the brothers founded a cocoon wholesale business (*jianhang*) in Wuxi, on account of the excellent prospects of their hometown becoming the most important mulberry-growing area for the numerous silk reeling mills which had been built in Shanghai⁷⁾ after the Sino-Japanese War of 1894–1895.⁸⁾ The cocoon wholesale business run by the Rong brothers turned out to be successful, thanks to considerable financial backing provided through the Guangsheng *jianzhuang*, which functioned as a source of financing for the brothers.

In 1900, the Boxer Rebellion (Yihetuan War) caused an acute food shortage in

7) SUZUKI, Tomoo (鈴木智夫) The Shanghai Silk-Reeling Industry During the period of the 1911 Revolution. In Shinkichi Eto and Harold Z. Schiffrin(ed.) *The 1911 Revolution in China*. Tokyo: University of Tokyo Press, 1984.

8) SUZUKI, Tomoo (鈴木智夫)「清末無錫における繭取引の発達と外国資本」『東洋学報』No. 63-1・2 1981.

North China. Exploiting this crisis, the merchants of Shanghai and Wuxi made huge profits by selling a tremendous amount of corn and other foods to northern areas. Since corn in particular was in great demand in the northern region, every flour mill then in operation in Shanghai and Tianjin made enormous profits. The war in the north also helped promote the exchange operations of the Rong brothers' traditional bank, bringing them an unexpected profit. The profit made through exchange operations amounted to nearly twice as much as the bank's capitalization (4,900 yuan) in 1900. Thus, financed by part of the fortune their father had accumulated as a minor tax collector as well as by the profits they had made through their banking business (as a traditional bank, *jianzhuang*) and through commerce (as cocoon wholesalers), the Rong brothers launched into the operation of modern enterprises.

2. ESTABLISHMENT OF THE MODERN ENTERPRISES OF THE RONGS

In the winter of 1900, the Rong brothers decided to start a modern grain mill. The greatly increased demand from the north for machine-ground flour, on account of the Boxer Rebellion, was the most important factor in their decision to go into the milling business. Besides this, an increase in the amount of imported machine-ground flour helped fuel their interest in the business. It was obvious that flour would be in greater demand in the future in China, which already had a long tradition of flour consumption; alongside this, there would be a growth in the demand for cotton textiles. Moreover, factory-made flour had the added advantage of being tax-exempt as a provision for foreign residents (Europeans and Americans). As a result of a thorough acquaintance with these circumstances, thanks to his experience in the *likin* bureau in Guangtong, Rong De-sheng had long taken such a keen interest in the advantages of modern mill operation that, when he saw the boom which accompanied the Boxer Rebellion, he was ready to start a business with his elder brother.

It happened that at about this time their father's superior, Zhu Zhong-fu, returned to his hometown Taican, Jiangsu, on his retirement from the position of the Chief of the Tax Bureau in Guangdong. The Rong brothers persuaded Zhu Zhong-fu to join them in founding the Baoxing Flour Mill. Rong De-shen took the job of manager (*jingli*) of the Baoxing, while his elder brother were engaged in the sales operations, and at the same time, they continued to manage the Guangsheng traditional bank in Shanghai.

The founding of a mill had required permission from the local authority of the Qing dynasty, and the close relationship between Zhu Zhong-fu and the Chief of the Business Bureau in Suzhou greatly contributed to its being quickly granted. In addition, the official granted Baoxing a ten years' monopoly (*zhuanli*). The construction of the mill was, however, interrupted by a movement against it led by local bosses, ruffians and racketeers hoping for concessions and blackmailing. In spite of the harassments, which were duly suppressed as a result of Zhu Zhong-fu's con-

tacts in various quarters, the mill finally began operations in 1902. (It should be understood that during this period, no private citizen was allowed to build a flour mill in the Wuxi Area.)

At the beginning of its operations, Baoxing was a small-scale mill with about thirty employees, equipped with four French-made stone grinders of 60 h.p. motor traction, and producing only 500 bags (*bao*) of flour a day. The so-called modern flour mill was, in fact, only a minor factory. The supply of raw wheat was a simple matter, for Wuxi was the largest center for the collection and distribution of grain in Jiangnan.⁹⁾ But the nonexistence of rail transport in Wuxi at that time made it impossible for Baoxing to extend the market for its product to North China or Manchuria. Even in its hometown of Wuxi, Baoxing's product achieved only moderate sales because of malicious rumours spread by local leaders to the effect that it was indigestible and not in any way nutritious.

Because of this, Zhu Zhong-fu left Baoxing to return to his old post of Chief of the Tax Bureau in Guangdong. Having lost an influential partner, Rong De-sheng went to Shanghai, where he sought new supporters from among the Wuxi group (Wuxi *bang*). Then, having been introduced by Rong Rui-xin, a comprador for Frazar and Co. [Fengtai yanghang] and a member of the Rong family, two leaders of the Wuxi group (Wuxi *bang*), Zhu Lan-fang (comprador for Jardine, Matheson and Co. [the yanghang]) and Zhang Shi-jun (comprador for Siemseen and Co. [Shanchen yanghang]) agreed to join the Rong brothers' business. Baoxing was then dissolved to restart as the Maoxin Milling Co. (Moaxin mianfen gongsi). The ten years' monopoly (*zhuanli*) enjoyed by Baoxing was inherited by Maoxin with the authorities' approval. Rong De-sheng became the general of the sales department, Zhang Shi-jun the direction-in-chief, and Rong Rui-xin the assistant director.

The outbreak of the Russo-Japanese War, in 1904, created demand in Manchuria for food. This helped improve the sale of machine-ground flour, which brought about a second boom for the Chinese milling industry. With its capital stock raised in 1905, Maoxin purchased a British-made steel grinder the following year, increasing its production capacity to two and half times the former level. With the opening of the railway between Shanghai and Wuxi, the market for Maoxin's product expanded to Manchuria. That year Maoxin fared extremely well, realising the incredible profit of 66,000 *tael* (capital stock; 60,000 *tael*).

From 1906 to 1908, a sudden rise in raw wheat prices and a drop in flour prices shook the management of Maoxin. But once this crisis passed Maoxin extended the scale of its operations in 1909 by building a new mill. In 1911, the Yangtze River flooded and a tremendous amount of wheat was water damaged. Rong De-sheng's refusal to use wet wheat as a raw material helped promote the market reputation of Maoxin's products. Thus Maoxin prospered in 1911 and 1912 with its trademark "lubingchuan" being regarded as the best quality flour in China. As a result, Maoxin's position as a major Chinese flour producer became firmly established.

9) Ji Jin-gen (季金根)「近代無錫的食品工業」『江蘇近現代經濟史文集』1983.

Prior to this, the Rong brothers had started a cotton spinning mill, prompted by the sudden rise in cotton textile prices resulting from the Russo-Japanese War. In 1905 they set up jointly with leading compradors and merchants of the Wuxi group, the Zenxin Cotton Spinning Co., Ltd. (Zenxin fangzhi youxian gongsi). At first their limited investment kept them from joining the management of the company. Then in 1909, a year after the opening, Rong De-sheng became the general manager and Rong Zong-jing the director-in-chief, thus enabling them to engage directly in management. Though Zenxin was not particularly well managed at the outset, by 1912 the quality of management had improved noticeably. In that same year, the Rong brothers set up in Shanghai a new milling company, the Fuxin Milling Co., Ltd. (Fuxin mianfen hezi gongsi) under such excellent management that it made more profit than its capital stock, even in its opening year (1913).

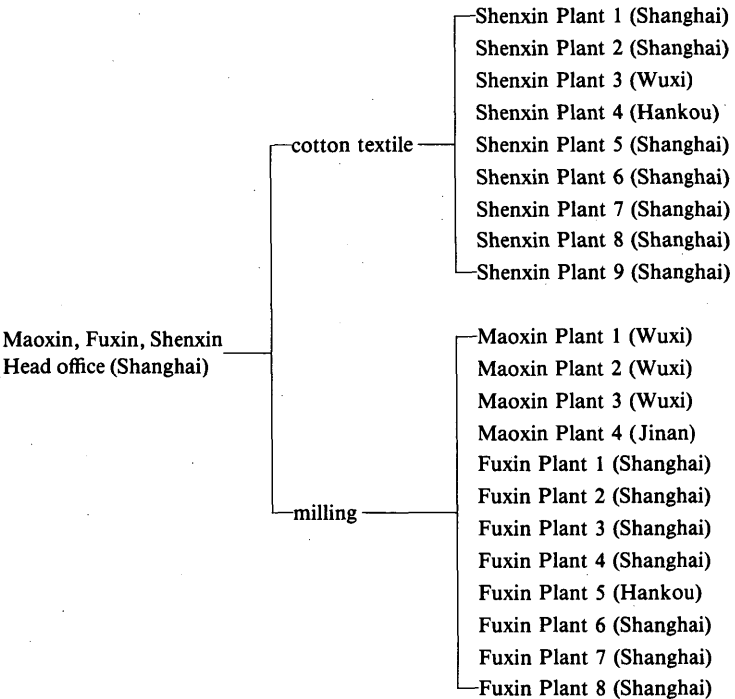
In 1915 the Rong brothers retired from the management of Zenxin Cotton Textile Co. and set up the Shenxin cotton textile Co., Ltd. (Shenxin fanji wuxian gongsi), with Rong Zong-jing appointed as general manager. Both the Rong brothers' enterprises, milling and spinning-weaving, made huge profits during and immediately after World War First. The construction of new plants one after another, the expansion of facilities, and mergers with other companies made the Rongs' modern enterprises the leading enterprises backed by domestic capital in China. In 1921 the Rong brothers established the Maoxin Fuxin Shenxin Head Office (Maoxin Fuxin Shenxin zong gongsi) in Shanghai, headed by Rong Zong-jing as general manager, which was to be the nucleus of all the enterprises controlled by the Rongs; it was to purchase raw materials, sell products and provide systematic backing for each product line. The Rongs' unique enterprise system of having one parent company unite under its control all the other enterprises was thus founded. (see Table 1.)

From 1922, however, as dumping by foreign business reduced the earning rate of all the Rongs' modern enterprises, the construction of new plants was completely stopped on the milling side. On the spinning and weaving side, on the other hand, the purchase and construction of new plants continued. As a result, the modern enterprises of the Rongs produced approximately 30% of the national flour production (excluding Manchuria), 20% of the national cotton yarn production and 30% of the cotton textile production, enabling the Rongs to occupy an important position in both the milling and spinning industries in China. From the late-1920's to the early-1930's, they dominated the Chinese economic world as one of the few industrialists in China employing a trust-style monopoly. Two leading figures in the Enterprises, Rong Zong-jing and Rong De-sheng, called the "king of China's cotton textile industry" and the "king of China's milling industry", respectively, became internationally known as the "pioneers of national capitalism in China".

3. CAPITAL ACQUISITION

In this section we will have a closer look at the management of the modern

Table 1. The Companies and their Seats of the Rong Family (1931)



enterprises of the brothers Rong. We will first discuss the character of the investors and then move on to the methods of acquiring capital. The leading investors in the Rong brothers' first enterprise, Baoxing (capital stock; 39,000 yuan), were Zhu Zhong-fu and Rong Rui-xin.¹⁰⁾ The former was the most important, with an investment of 15,000 yuan. Being their father's, Rong Xi-tai's, superior, Zhu Zhong-fu had a particularly close relationship with the brothers. Rong Rui-xin (investment of 9,000 yuan) was a member of their family and an influential comp-rador-merchant with a huge fortune of 800,000 yuan in Shanghai. The Rong brothers, in spite of their being the central figures of Baoxin's management, invested only 6,000 yuan, far below the amount invested by Zhu Zhong-fu and Rong Rui-xin. Other investors included the above-mentioned Rong Zhi-ying's second son, Rong Wei-heng (his pen name being Rong Bin-zhi), with an investment of 3,000 yuan, and a member of the minor investors with a total investment of 6,000 yuan.¹¹⁾

In Maoxin (capital stock; approx. 50,000 yuan), when Zhu Zhong-fu's invest-

10) JIAN Zhong-han (錢鐘漢)「抗戰前無錫六個民族工業系統的原始資本及其發展變化」Jiangsu jinxiandai jingjishi wenji (江蘇省中国現代史学会) (ed.)『江蘇近現代經濟史文集』1983.

11) JIAN Zhong-han (錢鐘漢)「抗戰前無錫六個民族工業系統的原始資本及其發展變化」Jiangsu jinxiandai jingjishi wenji (江蘇省中国現代史学会) (ed.)『江蘇近現代經濟史文集』1983.

ment was transferred to them, the Rong brothers became the most important investors by financing 20,000 yuan, which accounted for 40% of the capital stock. Second to them was the above mentioned Rong Rui-xin, with an investment of 12,000 yuan. Two new investors, Zhu Lan-fang and Zhang Shi-jun, invested 4,000 yuan each, and Rong Wei-heng, who had also invested in Baoxing, contributed 4,000 yuan as well. The 6,000 yuan invested in Baoxing by minor investors was transferred to Maixin.¹²⁾

In Zenxin (capital stock; 270,800 yuan) the Rong brothers invested 60,000 yuan thus accounting for 22% of the capital stock. Other investors included leading compradors (all from Wuxi), merchants and financiers from Shanghai. Each of them—five in all—invested 30,000 yuan. Though their names are unknown, the number of minor investors who were less closely connected or less familiar personally to the Rong brothers' earlier enterprises, including Zenxin, were more or less personally related to the central figures of the management, the Rong brothers. The investors were collected based on mutual trust built up through various relations, such as kinship (family), provincial fellowship (persons from the same province) or friendship (friends and acquaintances). They supported the opening and management of the Rong brothers' enterprises.

The capital invested in the Rong's brothers' enterprises at this stage consisted of either government officials' private funds, traditional trading usury or comprador capital. The Rong brothers' own funds were, as was shown above, provided from profits arising from the management of their old-fashioned financial firm and trade. The capital invested by the joint investors was basically the same as that invested by the brothers. The capital of Baoxing's largest investor, Zhu Zhong-fu, was derived from the private funds he had accumulated during his tenure as the chief of the Tax Bureau in Guangdong, and that of Maixin's and Zenxin's joint investors Rong Rui-xin, Zhu Lan-fang and Zhang Shi-jun, was comprador capital—a variation of trading capital.

After 1910 a considerable change was seen in the list of investors in the Rong brothers' enterprises. Their capital stock investment having passed the 50% mark, the Rong brothers became the most important investors. The capital they sank in the successive construction of new enterprises (plants), could by then mostly be raised from the profits made by their other enterprises. It seems that once their enterprises had got underway, a smooth accumulation of capital enabled them to draw funds from the earnings of their existing enterprises to finance the construction of new plants.

Even then, however, their joint investors remained limited to those who had a special connection with them either through kinship, provincial ties or friendship. Paradoxically, in fact, their fellow investors at this period were, more than ever,

12) JIAN Zhong-han (錢鐘漢)「抗戰前無錫六個民族工業系統的原始資本及其發展變化」
Jiangsu jinxindai jingjishi wenji (江蘇省中国現代史学会) (ed.)『江蘇近現代經濟史文集』1983.

limited to those with strong connections with the Rong brothers. They included, apart from family members, Wang Yu-qing, Wang Yao-chen, Pu Wen-ting and Pu Wen-wei (all former merchants from Wuxi), all of whom had been reliable assistants or partners when the Rongs were purchasing raw wheat for Baoxing and Maoxin or selling their products. The more their businesses prospered, expanded and developed, in fact, the stronger was the relationship required of a joint investors.

4. MECHANISM OF CAPITAL ACQUISITION

This section will discuss the measures taken by the modern enterprises of the brothers Rong for the purposes of securing and accumulating capital. In China, reflecting the underdeveloped condition of security and capital markets, capital investment was characterized by cash payments, with a strong tendency towards low risk and guaranteed security with a view to short-term repayment of capital. It was extraordinarily difficult to use this kind of capital in modern business and have it accumulate. In order to make use of the short-term, low risk orientation which characterized the enterprises of China, peculiar measures of guaranteeing payment of dividends at a fixed rate regardless of profit or loss—the payment of guaranteed dividends (*guanli*), and of dividing most of their disposable income (*hongli*) among the investors as well—were required. The capital invested in the Rong brothers' enterprises had much in common with the ordinary capital of China at that time. Investors in their earlier enterprises, Baoxing, Maoxin and Zenxin, were more like financiers, regarding their investment as temporary. Only the knowledge that the Rong brothers' would pay dividends at a much higher rate than usual for traditional capital investment (traditional trading capital, for instance) prompted them to invest in the Rong brothers' industry, and they demanded repayment of their invested capital in the shortest possible term.

The only assurance given to them by the Rong brothers was the payment of guaranteed dividends (*guanli*). The rate was as high as 10% per annum. In other words, dividends were guaranteed at the then ordinary profit rate for capital as fixed interest.

Moreover, they promised to distribute a certain portion of the *hongli* among investors, but no dividend ratio—that is, the percentage of disposable profit (*hongli*) that could be shared by investors—was specifically guaranteed. So whenever the Rong brothers' enterprises earned *hongli*, there arose conflicts between major shareholders and the Rong brothers, with respect to the division of the *hongli*; those shareholders whose main concern was moneymaking demanded the division of most of the *hongli* among investors (with the division to be made in proportion to the amount of investment), and the brothers trying to keep it within the enterprises to finance future plant and equipment investment. In the early days, when their investment accounted for less than 50% of the capital stock, the Rongs were not able to persuade the major investors to accept their opinions. The short-

sightedness of their joint investors often prevented them from carrying out their management policies.

The situation improved greatly after 1913. The Rong's opening of Fuxin, in 1913, their breaking away from Zenxin, in 1915 and the founding of Shenxin directly contributed to a change in the situation. In the case of Fuxin, on closing the first year of business, a general shareholders meeting made a decision on the allotment of *hongli*; that is, ten-thirteenths of the *hongli* would be allotted to the shareholders, two-thirteenths to the directors and employees as bonus and the rest (one-thirteenth) used for various reserves, including defraying depreciation expenses. This ratio was always referred back to when the allotment of the *hongli* was being determined in each of the Rong brothers' companies. It enabled the investors to receive not only *guanli* at the high interest rate of 10% per annum, but also most of the *hongli* as dividends. This measure greatly helped the rapid expansion of the Rong brothers' own funds, enabling them to accumulate and supply funds for constructing new plants.

In 1915 the Rong brothers opened the above-mentioned Shenxin by providing a majority (180,000 yuan) of its capital stock (300,000 yuan). Shenxin specified the payment of *guanli* at the annual interest rate of 10% and ten-thirteenths of its *hongli* in its agreement.

Concurrently the Shenxin underwent an important transformation; its corporate form was changed into an unlimited partnership. This removed the board of directors, which had imposed restrictions, on the general manager's behavior, from the corporate organization, concentrating authority in the manager. Though every decision was made for Shenxin at the general shareholders' meeting, the Rong brothers, with the majority of the capital stock in their hands, could now easily impose their management policies on their enterprises. That enabled them, as a result, to revise the payment of the *hongli* to investors so as to lead to the strengthening of their own capital without making any change in the existing allotment ratio; formerly, this had prevented their enterprises from accumulating their own capital. It also prevented the *hongli* paid to the investors from being taken out of the company, which made it possible to use the *hongli* for such purposes as expansion of plant and equipment, opening of new plants, and mergers with other enterprises. Thus, whilst still accepting capital earmarked for moneymaking and short-term repayment as its main objective, just like other industries, the modern enterprises of the Rongs were now ready to execute a long-range management policy, which was quite exceptional for China. The high interest rates, which were generally a hindrance to corporate management, now worked favorably for the Rongs' enterprises as a way of accumulating quick capital. (It worked against them, however, in the case of loans.) What made the modern enterprises of the Rongs continue their amazing expansion during World War First and immediately after, was the clever combination of this kind of capital accumulation with the exterior conditions of the improved market environment. Investing a portion of their enormous wealth in modern banks as well as in traditional local banks (*jian-*

zhuang), the Rong brothers advanced their power in China's financial world, too. Rong Zong-jing became the director of the China National Bank (*Zhong guo yinhang*) and of influential commercial banks, such as the Shanghai Bank (*Shanghai yinhang*) and the Shanghai Savings Bank (*Shanghai chuxu yinhang*), and the Rongs could now draw an enormous amount of funds from these modern and traditional banks on a regular basis. (Rong De-sheng married one of his daughters to Song Mei-yang, the son of the executive director of the China National Bank, Song Han-zhang; the marriage connection with the Song's was to facilitate financing from the banker.¹³) Consistent support from most influential banks gave the Rongs a financial advantage over competitors. They managed to survive competition from foreign capital enterprises, such as foreign spinning mills, even during the depression that followed World War First. Their tenacity was attributed to the establishment of this unique way of accumulating capital and securing finance.

5. CHARACTERISTICS OF MANAGEMENT ORGANIZATION

The management organization of the modern enterprises of the Rongs in the 1920's and 1930's will be discussed in this section. What should be first noted about this period is that the management of the enterprises had become more and more dependent on Rong brothers and their share of the investment. The Table 2 clearly shows the extraordinary proportion of their share in each company's capital stock, with an average of more than 70%.

Secondly, the modern enterprises at this time indivisibly combined corporate ownership with management. The post of general manager in each enterprise was monopolized by the central figure of the Rong family, Rong Zong-jing. (see Table 3.) His dominance at that time was absolute. Indeed, he not only occupied alone the post of general manager of all the enterprises associated with his family, but also assumed complete control of all the companies under the control of the 'Zhong gongsi' or the Head Office, by becoming its general manager as well. The Rong brothers, being the largest shareholders, thus succeeded in establishing a setup under which they held actual managerial power because their rights of ownership were combined with powers of management.

Thirdly, the management organization was so centralized that the general manager's power could be absolute. Their bitter experience at Zenxin had taught the Rong brothers to do without a board of directors in all the enterprises financed by them. They had steadily carried out their policy of concentrating power in the general manager, ever since its inception in 1915. What they did was: 1. to make the enterprises unlimited partnerships (according to Chinese Company Law (*Gongsi tiaoli*), an unlimited partnership had no board of directors, and all managerial power including the right of personnel management was centered on the general

13) CHEN Wen-yuan (陳文源) and WU Jin-chu (吳錦初) 「近代中国民族工業的一個標本——榮家企業發展概述」『江海學刊』1982 3 期。

Table 2. The Capital Stock of Each Company of Maoxin, Fuxin and Shenxin, and the Rong Brothers' Investment in It (1932)

Name of plant	A. The capital stock (in thousand yuan)	B. Rong Brothers' Investment (in thousand yuan)	Other shareholders' investment (in thousand yuan)	B/A × 100 (%)
Maoxin Plant 1,2,3	1,166.37	1,067.50	99.17	91.5
Maoxin Plant 4	416.67	381.25	35.42	91.5
Fuxin Plant 1	500.00	233.20	266.80	46.6
Fuxin Plant 2,4,8	2,322.50	1,402.09	920.41	60.4
Fuxin Plant 3	500.00	133.35	366.65	26.7
Fuxin Plant 5	1,500.00	828.80	671.20	55.3
Fuxin Plant 6	—	—	—	—
Fuxin Plant 7	1,500.00	900.00	600.00	60.0
Shenxin Plant 1,8	3,500.00	2,216.55	1,283.45	63.3
Shenxin Plant 2	(2,483.33)	(2,483.33)	—	(100)
Shenxin Plant 3	3,000.00	2,170.00	830.00	72.3
Shenxin Plant 4	285.00	150.00	135.00	52.6
Shenxin Plant 5	(1,399.51)	(1,399.51)	—	(100)
Shenxin Plant 6	1,388.89	1,388.89	—	100
Shenxin Plant 7	2,500.00	2,350.00	150.00	94.0
Shenxin Plant 9	694.44	694.44	—	100
Total	(23,157.01) 19,274.17	(17,798.91) 13,916.07	5,358.10	(76.9) 72.2

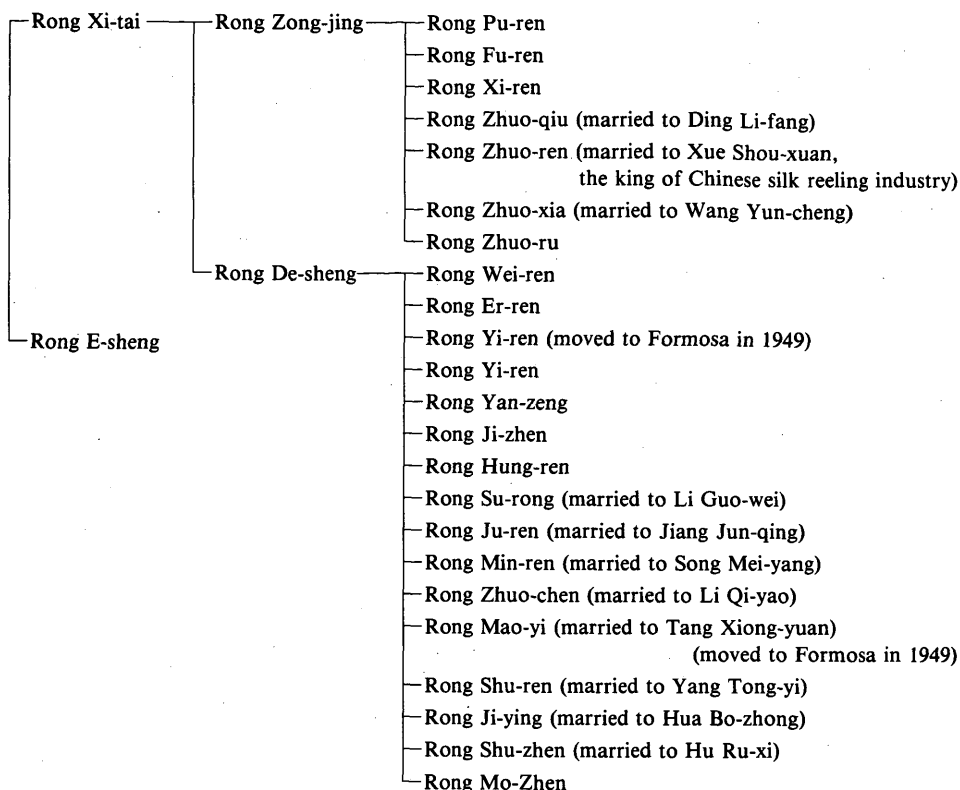
manager); and 2. paid attention always to their share in the capital stock in order to keep a majority, so as to manipulate the general shareholders' meeting which had the right to appoint or dismiss the general manager as it saw fit (Chinese Company Law prohibited the transfer of shares to outsiders without the unanimous consent of shareholders in the unlimited partnership; it was therefore the best corporate form for the Rong brothers both to safeguard their position as the largest shareholder and to increase that share.) Thus, in the Rong enterprises during the 1920's and 1930's, the company's wishes were merely their wishes determined almost autocratically without any intervention by other shareholders.

Fourthly, executive positions were almost entirely monopolized by the Rong brothers' relatives, either directly or by marriage; they constituted an exclusive family management or control system. (see Table 4.) In fact, the executives of Rong enterprises were very close relatives (Rong Pu-ren, Rong Er-ren and Rong Wei-ren), relatives by marriage (Wang Yao-chen, Wang Yu-qing, Wang Qi-zhou, Ding Zi-ren and Huo Dong-chen) and family (Rong E-sheng, Rong Yue-quan and Rong Ji-ren). There were only a few non-relations, namely, Pu Wen-ting, who had for a long time served the Rong brothers in the capacity of assistant, Lu Fu-ren, Cha Zhong-qing and Wu Kun-sheng.

The practice of control by blood relations at the Rong enterprises was not something adopted temporarily during the groups expansion period. They con-

Table 3. The Top Leader of the Rong Family Company (1928)

Name of plant	Position	Name	Relation with the Rong Family
Maoxin 1,3	general manager	Rong Zong-jing	an assistant of the Rong family
	manager	Rong De-sheng	
Maoxin 2	general manager	Rong Zong-jing	
	manager	Lu Fu-ren	
Maoxin 4	general manager	Rong Zong-jing	Wuxi born
	manager	Zhang Wen-huan	
Fuxin 1	general manager	Rong Zong-jing	the father of Rong Zong-jing's third daughter's husband
	manager	Wang Yao-chen	
Fuxin 2,4,8	general manager	Rong Zong-jing	the father of Rong Zong-jing's first daughter's husband
	manager	Ding Zi-ren	
Fuxin 3	general manager	Rong Zong-jing	the same family the husband of Rong Desheng's first daughter Li Guo-wei's cousin
	manager	Wang Yao-chen	
Fuxin 5	general manager	Rong Zong-jing	
	manager	Rong Yue-quan	
	sub-manager	Li Guo-wei	Wang Yao-chen's elder brother
Fuxin 6	sub-manager	Huo Dong-chen	
	general manager	Rong Zong-jing	
	manager	Wang Yu-qing	
Fuxin 7	sub-manager	Wang Yao-chen	an assistant of the Rong family
	general manager	Rong Zong-jing	
	manager	Wang Yu-qing	
	sub-manager	Wang Yao-chen	
Shenxin 1	general manager	Rong Zong-jing	Wang Yao-chen's son
	manager	Yan Yu-kun	
	sub-manager	Wang Yao-chen	
	sub-manager	Wanf Qi-zhou	engineer Rong Zong-jing's first son
Shenxin 2	general manager	Rong Zong-jing	
	manager	Zhu Xian-fang	
	sub-manager	Rong Pu-ren	Rong Zong-jing's uncle Rong De-sheng's second son
Shenxin 3	general manager	Rong Zong-jing	
	manager	Rong De-sheng	
	sub-manager	Rong E-sheng	the same family
	sub-manager	Rong Er-ren	
Shenxin 4	general manager	Rong Zong-jing	
	manager	Rong Yue-quan	Rong De-sheng's first son
	sub-manager	Li Guo-wei	
	sub-manager	Huo Dong-chen	
Senxin 5	general manager	Rong Zong-jing	the same family
	manager	Zhu Xian-fang	
	sub-manager	Rong Wei-ren	
Senxin 6	general manager	Rong Zong-jing	the same family
	manager	Rong E-sheng	
	sub-manager	Rong Ji-ren	
Shenxin 7	general manager	Rong Zong-jing	
	manager	Zhu Xian-fang	
	sub-manager	Rong Wei-ren	

Table 4. The Lineage of the Rong Family

sidered it a permanent system, toward which every step had been taken during the War. The Rongs sent gifted boys from the extended family to universities in Europe, America and Japan, to enable them to acquire special knowledge, techniques and ability for corporate management and control. The Rong brothers' intention was to see specialized managers and engineers continuously produced from among their blood relatives and family; they planned to have them manage and control their enterprises in due course.

The background of the staff engaged in administrative work at Mr. Rong's enterprises was also quite unique. Indeed, more than 60% of all staff position were occupied by people from the general manager's hometown, Wuxi. (see Table 5.) The enterprises functioned, as it were, as organizations based upon the provincial fellowship of people from Wuxi. The managers and executives were selected from among immediate family members, relatives by marriage and kin; that is, the selection was based upon blood relationship. The staff, on the other hand, were employed on the basis of the provincial ties with the general manager. The inclination to favor the blood or provincial ties in the Rong brothers' personnel management was absolute.

Table 5. The Officers of the Rong Family Company

Name of plant	① Number of the officer	② Born in Wuxi	③ $\frac{②}{①} \times 100$ (%)	④ Member of the Rong Family	⑤ $\frac{④}{①} \times 100$ (%)
Head office	60	41	68.3	20	33.3
Maoxin 1,3	34	29	85.3	8	23.5
Maoxin 2	23	19	82.6	4	17.4
Maoxin 4	20	12	60.0	3	15.0
Fuxin 1	21	15	71.4	1	4.8
Fuxin 2,4,8	72	56	77.8	8	11.1
Fuxin 3	25	21	84.0	2	8.0
Fuxin 5	25	19	76.0	4	16.0
Fuxin 6	20	15	75.0	0	0
Fuxin 7	35	22	62.9	0	0
Shenxin 1	97	57	58.8	11	11.3
Shenxin 2	51	20	39.2	6	11.8
Shenxin 3	94	86	91.5	10	10.6
Shenxin 4	48	27	56.3	3	6.3
Shenxin 5	54	30	55.6	8	14.8
Shenxin 6	39	19	48.7	3	7.7
Shenxin 7	100	31	31.0	2	2.0
the business officers in various place	139	98	70.5	24	17.3
Total	957	617	64.5	117	12.2

6. THE PRODUCTION LINE ORGANIZATION

Finally, we will discuss the organization and labor administration on the production line of the Rongs' modern enterprises. What should be noted first with respect to this was the increasing difficulty of carrying out the traditional policy of emphasising blood ties and provincial fellowship. The plant in the Rong brothers' hometown, Wuxi, could limit its workers to those from around Wuxi (members of Wuxi group [Wuxi *bang*]), but the plants in Shanghai, Hankou and Jinan could never do this. The bond that accompanied blood or provincial fellowship was indispensable to the Chinese¹⁴⁾ who existed as members of social groups rather than as individuals. It worked effectively for corporate management as well, as it helped arouse organizational loyalty among workers. Most of the production lines at the gigantic Rong enterprises, however, found it more and more difficult to make

14) IMAHORI, Seiji (今堀誠二)「社会団体の紐帯としての宗教」Yoshihiko OGURA (小倉芳彦) (ed.)『中国文化叢書』Vol. 6 大修館書店 1967.

full use of this.

What measures, then, were taken there to exercise control over workers from different social and cultural backgrounds? The measures adopted by the management were the system under which the so-called boss (*gongtou*) contracted for the employment of workers, payment of wages, and supervision of work for a specific department in the factory; it was aimed at making him control and lead the workers by making the most of his personal influence. This system is generally called the Baogong system (*Baogong zhi*) or intermediate contract system. 'Bao' in the Baogong system means "contract by a boss". 'Bao' was widely put into practice in China for every activity¹⁵⁾, ranging from the collection of tax or farm rent, trading and foreign trade to corporate management etc. The *gongtou* in modern enterprises such as the Rongs' was production organizer and production line supervisor as well as contractor for labor supply.

Next we will discuss specific conditions on the production line at the Fuxin milling plant. The organization of Fuxin's production line can be roughly divided in two: the external organization *Waichang* and the internal, *Neichang*. The former was sub-divided in two again; the department delivering raw wheat to the warehouse, *Shangmai* and that cleansing the flour, *Xiafen*. These two external departments adopted a complete Baogong system under which not only the employment administration and supervision of the workers but also the work itself were contracted. *Shangmai* and *Xiafen* each had a boss (*gongtou*) called *tounao*, who contracted for a whole range of operations performed by his section, from the employment of laborers for each department, the assignment and supervision of work and the payment of wages, to the dismissal of laborers etc.

There was no difference between the "internal" and "external" organizations on the production line in that the factory management or senior staff members did not attempt directly to control their laborers. The "internal organization" consisted of six departments responsible for the following: delivery of cleaned wheat (*xiamai*), selection and disposal of bad wheat (*qingmai*), milling (*jiqi*), packing (*dabao*), delivery of products to the warehouse (*duizhan*) and machine repair work (*xiuqi*) to each of which a boss (*gongtou*) or *tounao* was appointed. Each *tounao* of the "internal organization" had two "lesser bosses" or *lingban* as his assistants, and assigned them the tasks of controlling and administering the laborers belonging to their section. (A *lingban* assumed responsibility similar to that of line supervisor, with a ratio of one *lingban* to approximately ten laborers.)

A slight difference from the job of *tounao* of the "external organization" was that his counterpart in the "internal organization" did not contract for the work itself. He did contract with the management, however, for the employment of laborers, supplying the promised number of workers every day. He took charge of the control and administration of laborers as well. He received the total wages on their behalf, and paid each worker under his control. Moreover, it was his

15) KASHIWA, Yuken (柏裕賢)『経済秩序個性論—中国経済の研究—』人文書林 1948.

responsibility to deal with any incident arising between the laborers and the company. He did not differ from his counterpart in the "external organization" in that he had in his power a certain number of laborers, using them arbitrarily and relentlessly pursuing intermediary exploitation.

The plant organization based upon *bao* and operated by means of "intermediary contractors", or line supervisors, was associated with the organization of people from the same province called *xiangbang*. The boss or *gongtou* of each section controlled the *xiangbang* for the laborers from his province, which consistently provided him with a certain number of laborers. For this reason, in those plants where the intermediary contract system had been adopted, each department was filled with workers from a specific province. For instance, in Fuxin's Plants 1 and 7 in Shanghai, the milling department was staffed by workers from Ningbo, the packing department by workers from Wuxi and Changzhou, delivery inside and outside the plant by workers from the part of Jiangsu north of the Yangtze River (*Subei*) or from Hubei Province. (However, Plant 1 had only a few workers from Hubei.) Fuxin's Plants 2 and 8 were dominated by those from Hubei. They monopolized the milling department of Plant 2, the packing department of Plants 2 and 8, and the delivery department of both Plants (including *shangmai* and *xiafen* of the "external organization", and *xiamai* and *duizhan* of the "internal organization"). It was a common phenomenon in the Rong brothers' milling plants for each department to be staffed exclusively by people from a particular province, which brought about divisions between departments whose workers came from different localities.

In the wake of capitalism in China, when the labor market had yet to be established and developed, the intermediary contract system (or 'baogong system') was effective to a certain extent; it helped bring about a steady flow and administration of labor by curtailing any tendency towards isolation and dispersion. It functioned effectively in preventing direct confrontations between labor and management and postponing the development of a laboring class. On the other hand, it allowed intermediary exploitation by a boss (*gongtou*), ensured the actual income of the laborers remained low and that morale and production efficiency dropped and made technical innovation on the production line difficult to achieve. This disadvantageous aspect of the intermediary system became so noticeable that it was impossible for the brothers Rong Zong-jing and Rong De-sheng to overlook it, though they had supported the logic of the system to some degree.

In the mid-1920's when fierce dumping by foreign powers deteriorated the management of their enterprises, they were forced to revise and rationalize production organization and labor administration to give them stronger competitive power. With the reform of labor administration in Shenxin's Plants 3 and 4 in 1925 as a start, the Rongs' modern enterprises gradually introduced specialized, administrative staff and removed bosses or *gongtou*; direct employment and administration of labor by management was set as the main target of the reform. Yet, opposed by *gongtou* losing their privileged status and laborers suspicious of

labor reform, the attempted reforms did not make great progress. The organization on the production line based upon the intermediary contract system (*baogong zhi*) and the organization of people from the same province (*xiangbang*) could not easily be dismantled.¹⁶⁾ Even in plants where the system of labor administration by specialized administrative and technical staff was underway, the staff was still selected from among the Rong's family, relatives by marriage and those from the same province.

The laborers felt themselves to be members less of the modern enterprises of the Rongs than of the *xiangbang* (or as members of the secret society).¹⁷⁾ In this respect, the Chinese characteristics of the Rongs' modern enterprises should also be recognized.

CONCLUSION

So far we have discussed corporate management in modern China using the modern enterprises of the Rongs as concrete examples. The conditions of capital acquisition and accumulation, and management and production organization have been described and analyzed. Yet other factors that enabled the Rong brothers to build up tremendous wealth in a short period and to become important members of the Jiangzhe money clique (*Jiang zhe caifa*), namely, connections with the government and relations with foreign powers, have been barely explored. (In fact, political affiliations as well as family and provincial connections constituted the basic reasons for the rise of financial cliques during the Ming and Qing periods, and relations with foreign powers were also an important factor in their foundation in modern China.) Nor have we discussed a variety of actions taken by industrialists, ranging from those aiming at the development, maintenance, expansion and reinforcement of a closely-knit relationship with central and local influential persons in politics and finance—including the establishment of marriage ties—and the actions, they took based upon their professional consciousness as traditional social leaders (*shidafu*), such as active participation in philanthropic and social work¹⁸⁾, to their unique, nonpartisan behavior during the Sino-Japanese War 1937–1945 and the second civil war between Nationalists and Communists, when they maintained con-

16) ZHU Bang-xing (朱邦興), HU Lin-ge (胡林閣) and XU Sheng-he (徐聲合) (eds.) 『上海產業与上海職工』上海人民出版社 1985, the original was published in 1939.

17) ZHU Bang-xing (朱邦興), HU Lin-ge (胡林閣) and XU Sheng-he (徐聲合) (eds.) 『上海產業与上海職工』上海人民出版社 1985, pp. 625.

18) TANG Wen-zhi (唐文治) 「榮熙泰先生傳」『茹經堂文集』Vol. 4 Chap. 7 1942.

19) HUANG Yi-feng (黃逸峰) 「旧中国荣家資本的發展」Huang Yi-feng (黃逸峰) and Jiangdou (姜鐸) (eds.) 『中国近代經濟史論文集』1981. (『學術月間』1964 5 期) JIANG Shao-zhen (江紹貞) 「榮宗敬・榮德生」Lixin (利新) and Sun Si-bai (孫思白) (eds.) 『民国人物傳』Vol. 1 中華書局 1978.

CHEN Wen-yuan (陳文源) and WU Jin-chu (吳錦初) 「近代中国民族工業的一個標本—榮家企業發展概述」『江海學刊』1982 3 期. FURUMAYA, Tadao (古厩忠夫) 「日中戦争と上海民族資本」『伝統的經濟社会の歴史的展開』Vol. 2 1983.

tact with both of the opposing governments in order to get through the turmoil.¹⁹⁾ Those elements remain to be studied on some separate occasion and they will throw light on the unique conditions of corporate management in modern China as well as on the internal system of values intrinsic to Chinese industrialists who supported those conditions.

