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FAMILY BUSINESS DEVELOPMENT IN MAINLAND CHINA: FROM 1872 TO 1949

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Family business development in mainland China (1872–1949)

Abstract

This study reviews family business in mainland China from 1872 to 1949 and provides evidence of its early development and its origins in 1872 when the first modern manufacturing firm was founded. We analyse the social, economic, and political environment in which family firms in mainland China were embedded to improve our understanding of how this unique organisational form was established and developed. Our analyses cover the late Qing Dynasty and the period from 1912 to 1949 during which the Republic of China ruled mainland China. Implications for current family business theory and practice are discussed.

Keywords: Family business; Mainland China; Early development; Late Qing dynasty.

Introduction

The creation of the People's Republic of China (PRC) in 1949 led to what has been described as the capitalist dilemma – how to adapt, develop and survive during the transformation of private enterprise into state-owned firms.¹ Three decades later, in 1978, when the government introduced its open-door policy, family-owned and managed enterprises re-emerged in mainland China. These small and medium-sized enterprises (SMEs) – mostly privately held – expanded exponentially, especially in the coastal provinces and the Special Economic Zones.² At the beginning of the 1990s, the establishment of stock exchanges in Shanghai and Shenzhen saw the listing of a number of these family firms, including the cross-listing of some of them on foreign stock exchanges. While extensive research has brought more attention to these family firms,³ relatively little is known about family firms before 1949, especially from an historical perspective. Our study is intended to fill this gap.

Family ownership is the dominant form of organisation around the world,⁴ and the Chinese family firm has been a primary focus of Chinese business history research.⁵ As Zelin points out, Chinese family firms are generally perceived to ‘have been organised as simple partnerships, relying on household capital and the resources of kin and friends, demonstrating little separation of ownership and control, and providing neither clear separation between the claims of business and personal creditors, nor protections for the firm against claims by individual creditors against individual partners’⁶ (p. 624). This perception is true for many Chinese family firms around the world. However, Chinese family business has never been a homogeneous form; such businesses founded by Chinese (individuals, families, immigrants) in other countries could be quite different from family businesses founded and operating in mainland China. In mainland China, over a century of ‘colonialism, war, revolution, political turmoil and economic uncertainty’⁷ has provided

a rich institutional environment in which family firms are embedded. Drawing upon this institutional context allows us to gain a better understanding of the evolvement of family business in China.

In parallel with the economic transformation within the PRC, the last three decades have seen the growth of ‘Chinese business history’. We do not intend to retrace this rich literature, especially debates regarding the great divergence and the emergence of industrial capitalism in Europe and the failure to achieve this industrialisation in China.⁸ Neither do we intend to show why it took China so long to establish a suitable institutional environment to facilitate enterprise development.⁹ Instead we focus on the historical development of Chinese family business in the late nineteenth and early twentieth centuries in order to improve our understanding of the current context in which Chinese family business operates.

Second, conventional wisdom holds that domestic business in China during that period was not able to compete with firms from abroad and lacked modern infrastructure and technologies. New evidence based on rigorous econometrics, however, paints a different picture. Zeitz compares the productivity among Japanese-, British- and Chinese-owned firms in the textile industry.¹⁰ His evidence indicates that Chinese local firms actually outperformed their British counterparts in cotton spinning, despite the fact that British firms had the most advanced technology. As Chan points out,¹¹ successful Chinese family businesses were able to build on managerial techniques borrowed from abroad, take into consideration the unique cultural and societal environment in China, and develop new forms of organisation and management. Similarly, Cochran’s intriguing analysis of the Liu family correspondence demonstrates how the family patriarch, Liu Hongsheng, was motivated to send his children to be educated abroad and encouraged their independent thinking.¹² Yet, his children were also expected to return to China to apply their Western knowledge to the running of family enterprises. We intend to highlight how Chinese family firms adapted to the new institutional

environment, and answer the question: Did Chinese family firms simply conform to a Western style of management or structure, or did they show creative adaptation in starting their family business?

Third, Kirby argues that Chinese family business had its roots in networks of family and other social ties,¹³ and therefore may present capitalism with Chinese characteristics. Meissner examines the competition between American flour makers and local Chinese companies in the Shanghai flour milling industry,¹⁴ and shows that Chinese companies indeed adopted alternative strategies and collaborated during the crisis to survive.

In summary, our study makes three contributions to the emerging literature on Chinese family business. First, to our best knowledge, this study is the first to provide a relatively holistic picture of family firm evolution in mainland China from 1872 to 1949, prior to the founding of the PRC. While previous research has examined Chinese family firms in Greater China and in other jurisdictions,¹⁵ family business history in mainland China, especially over a longer historical horizon, is under-studied. Second, while commercial industries have been examined in the literature,¹⁶ we focus on manufacturing, beginning in 1872 when the first modern, family-run manufacturing firm was established. Third, our work responds to the call by Chua and Chrisman for more research into family business in mainland China, given its rich cultural and socio-political environment.¹⁷ Family businesses in the PRC have a relatively short history. Such firms did not start to emerge until 1978 when the economic reform began to take effect. Historical insights into and understanding of family business in mainland China provide important implications for current theories and practices of family businesses.¹⁸ In particular, to our best knowledge, this study is the first to examine the implications of wars on Chinese family business, in particular the impacts of the Sino-Japanese wars and the civil war between the Chinese Communist Party and the Nationalist Party (the Kuomintang, KMT).

Our analyses draw on perspectives from recent research on Chinese history, business development, and social change, both in English and in Chinese. We examine significant events and developments in chronological order, illustrating our arguments through the use of examples drawn from individual family businesses in mainland China. While not exhaustive, we highlight some distinctive features of Chinese family business in the late Qing and early Republican eras, especially their organisational structures and management strategies to survive and grow amid an extremely adverse competitive environment. Family firms in China currently face similar pressures from state-owned enterprises (SOEs) and foreign multinational corporations. As a result, insights gained from looking into Chinese family business from a century ago may provide important implications for present-day enterprises.

The remainder of this article unfolds as follows. We first discuss the adoption of family ownership structures, followed by the specific examination of family businesses in the late Qing dynasty (1872–1911). Next, we analyse family businesses during the period of the Republic of China on the mainland from 1912 to 1949, consisting of four sub-periods: 1912–1920, 1921–1936, 1937–1945, and 1945–1949. We then offer concluding comments and outline possibilities for further research.

Family business in the late Qing Dynasty (1872 to 1911)

Family businesses have a long tradition in China, especially during the Ming and Qing dynasties,¹⁹ but the selection of a family business structure is an endogenous choice. Chinese businessmen may have opted for this structure for several reasons. First, as pointed out by Goetzmann and Köll, despite the fact that the Shanghai Stock Exchange for foreign companies was one of the most active markets around the globe, the market for domestic Chinese companies failed to become an effective means to raise capital. Lack of access to capital may have forced private

Chinese businessmen to operate as family firms as this organisational structure enabled them to raise capital through kinship and social ties. Second, business families were more likely to pursue non-economic goals, i.e., socio-emotional wealth;²⁰ the inclusion of other shareholders in the company could have compromised their control of the firm, thus making the preservation of socio-emotional wealth more challenging. Family control could have been more important in China, than in other contexts, given its societal and cultural distinctiveness. Notwithstanding this distinctiveness, recent research confirms that family control was more nuanced than often portrayed in the literature, especially in terms of the balance between patriarchal structures, filial devotion and intergenerational empowerment.²¹ This nuance cautions us to ensure that interpretations of the social and cultural distinctiveness of Chinese family business do not become romanticised or ‘orientalised’.²² Finally, that Chinese family business had its roots in networks of family and family involvement only seems natural.²³ Forming a family business may have helped to avoid state control and government predation. Government control and policies can be seen as key factors impeding family business during the Qing Dynasty.

The Qing Dynasty was the second dynasty in Chinese history founded by a national minority group, and was the last imperial dynasty of China. Nurhachi, a leader of Jurchen, founded Houjin in 1616, and his son, Huang Taiji, changed Jin to Qing in 1636. The Ming Dynasty, which preceded the Qing Dynasty, ended in 1644 when a peasant revolt occupied Beijing and established a short-lived Dashun Dynasty. Qing’s army later defeated the Dashun army, which was led by Zicheng Li. The Qing Dynasty formally took power in 1644, and ruled China until 1911 when the Republic of China was founded.

The Qing Dynasty was one of the several powers in the world in the seventeenth century, and had reached an historic new high in economic development in the middle of the eighteenth century, especially under the Kangxi Emperor and Qianlong Emperor.²⁴ The population of China

reached 100 million under Kangxi and Qianlong.²⁵ The Qing Dynasty lost its strength, however, after the Qianlong Emperor. The First Opium War between the Qing Dynasty and Britain (1839–1842) forced the Qing Dynasty to sign its first unequal treaty,²⁶ the Treaty of Nanjing in 1842 that was extended by the Treaty of Bogue in 1843. Under these treaties, five Chinese ports were opened to foreign trade, Hong Kong was ceded to Britain, and Britain was granted most-favoured-nation status. The treaty fractured China's sovereignty and self-image, and made China a passive object in international relations.²⁷ Although the treaties were negotiated, their punitive clauses reflected the consequences of China's military defeat.²⁸ The Second Opium War further compromised the Qing Dynasty's independence and sovereignty, and the Treaty of Tianjin and Convention of Beijing, signed around 1860, required the Qing Dynasty to cede more land to the British and Russian governments. Additional Chinese ports were opened to foreigners and the import of opium was legalised after the war.

Military defeat motivated the Qing Dynasty to adopt new policies to save the dynasty. The 'self-strengthening movement' included initiatives to learn from the West and the adoption of modern technologies, with the main objective being 'to protect China from further Western encroachments'.²⁹ Modern shipping yards and military factories were built, students were selected and sent abroad to study new technologies, and new education systems were proposed. All these institutions were tightly controlled by the state yet also dependent upon those Chinese individuals who had gained experience with foreign traders and had their own capital to invest. At the same time, ordinary Chinese citizens and their families began to think about entering business to take advantage of opportunities that these new policies potentially provided. They did so with an understanding of the significant risks that they would be undertaking. Our focus is not the institutions or companies controlled by the state or government bureaucrats, but rather the modern family firms established in mainland China after the Opium Wars of 1856–1860. We review the

development of Chinese family business in the Qing Dynasty in two periods, using the Sino-Japanese War of Jiawu (1895) as a dividing point.

From 1840 (The First Opium War) to 1895 (The War of Jiawu)

Modern Chinese family business first took hold in the silk-reeling industry.³⁰ It is well recognised that a feasible business plan is probably the most important issue to consider when starting up a business,³¹ and the choice of the industry, as part of the plan, may determine whether the business survives or not. Our analysis suggests that several factors may have led Chinese family businessmen initially to select the silk industry. First, the history of silk production in China dates back to the Zhou Dynasty (B.C. 1046 to B.C. 256) and China had a long-established tradition of trading silk with the West through the famous Silk Road, which had reached as far as the Roman Empire.³² As a result, silk reeling was a skill possessed by many Chinese, especially Chinese women. The supply of skilled labour would be met more readily if the silk industry were selected. Second, Chinese silk had enjoyed a huge international market for a long time. Furthermore, as noted earlier, the Qing Dynasty was required to open its doors to foreign trade; foreign businessmen were seen frequently in many Chinese ports. As a result, neither market demand nor transportation was a concern, reducing the need to invest capital to market the product. Lastly, before the Opium War, silk reeling in China was undertaken almost exclusively by hand. The introduction of modern manufacturing equipment to China after the war led Chinese businessmen to realise that mass production of silk reeling was possible.

In the 1870s, Mr. Qiyuan Chen, a Chinese living in Vietnam, went back to his hometown and started the first modern manufacturing family firm in China's history. These operations were so profitable that, at their peak, more than 300 silk-reeling factories were established in the province of Guangdong alone.³³ As discussed earlier, all these companies were held by the family, and distinct from those controlled by the state or foreigners. Privately held family business was the

dominant ownership structure from 1872 to the turn of the century, while the state controlled only a number of traditional industries, such as salt and porcelain production.³⁴

Kaplan et al. use the analogy of the jockey and horse to describe the elements necessary to start up a successful business, with the former referring to entrepreneurs and the latter to business plans.³⁵ They conclude that business plans are more important, *ceteris paribus*. The success of Chen's silk-reeling factory may have been related to his having a plan and executing it well, but it may also underscore the importance of the entrepreneur. While it is often debated whether entrepreneurs are born or educated,³⁶ Mr. Chen's case suggests that both birth and education may have played a role. His business experience abroad, his risk-taking spirit, and his study of foreign operations in his home province all contributed to making him a successful businessman.

Family involvement was also found in other industries during the period. Like silk reeling, several other industries were seemingly natural choices for Chinese business families to select. First, flourishing foreign trade made ship maintenance and repairs a necessity. The first generation of Chinese mechanics arose due to the demand for ship-repair-related work. Intensive efforts, in conjunction with the introduction of the lathe, led some repair workshops to grow rapidly, especially in major ports such as Shanghai and Guangzhou. The Fachang Machinery shop in Shanghai was such an example,³⁷ growing from a four or five-person workshop in the 1870s to a modern machinery manufacturer with about 200 employees in 1890. Second, like silk reeling, cotton textile manufacturing was also a tradition in China, and Chinese family businessmen invested heavily in this sector. Modern cotton manufacturing firms were first established in ports that were opened to foreigners during the Opium Wars. Third, family businesses also founded flour mills, match factories, paper mills, printing houses, oil pressing

mills, and lamp factories.³⁸ Several of these factories, such as match factories, were the first in China's history.

In summary, modern family firms began to emerge after the Opium Wars. According to Xu and Wu,³⁹ as of 1895, the year that witnessed the war between the Qing Dynasty and Japan, approximately 170 businesses could be classified as family enterprises. These firms were mainly manufacturing firms, while a few of them operated in the mining industry and several of them in the transportation industry. Over 60,000 were employed by these businesses. A careful analysis reveals the following patterns for Chinese family business during this period. First, since family businesses faced competition from state- or bureaucrat-controlled companies and foreign firms, they had to select an industry in which they could survive and grow. Then, as now, survival was the dominant challenge facing entrepreneurial firms. Early successful examples of the Chinese family business confirmed the importance of industry selection, with those in silk reeling and machinery repair thriving, but many firms in other industries, such as paper manufacturing, failing. According to Xu and Wu and Reed, local paper could not compete with imported paper, and this weakness was the main reason for operating failure.⁴⁰

Second, many family firms were founded by those with what we term 'an entrepreneurial spirit'. As shown in Xu and Wu,⁴¹ most machinery repair factories were founded by the owners of blacksmith workshops. Some other firms, such as the Jichanglong Silk Reeling founded by Mr. Qiyuan Chen and the Qiaoming Match Factory founded by Mr. Shenxuan Wei, were created by individuals who had engaged in business abroad but who had returned to their hometowns to start new enterprises. While abroad, these businessmen were exposed to modern production technology supported by steam engines, and were motivated to apply such technology to traditional industries, such as silk reeling, that had been in place for more than two thousand years

but relied on manual labour. Entrepreneurial spirit was crucial for the first generation of Chinese family firms. Facing tremendous pressure and exploitation from state or bureaucrat-owned enterprises and foreign companies, and with limited capital, these Chinese businessmen had to figure out a survival strategy, in which the taking of excessive risk was a feature.

Third, inter-generational succession is considered by many family business scholars to be a key feature that differentiates the family business model from non-family firms.⁴² The first generation of Chinese family business confirms the role played by intra-family succession. The Fachang Machinery business in Shanghai was founded in 1866 by Mr. Juzan Fang, who was succeeded by his son, Mr. Yilv Fang. Yilv worked in his father's workshop, and took over the company when he was 23 years old; under his leadership the Fachang business experienced its most significant growth.

It is worth noting that Chinese entrepreneurs also experimented with some indigenous innovations. In Zelin's description of Zigong's salt manufacturing, both technical and organisational innovations were implemented by local businessmen and business families.⁴³ Lineage trusts, for instance, were considered as one of the 'most important developments'⁴⁴ and represented 'one of the most advanced business institutions of the late imperial period'.⁴⁵ According to Ma, resources pooled by lineages played important roles, such as education funds for the next generation, the means to prepare the family business for family succession, and capital for potential business expansion.⁴⁶ The lineage unions among Hui Merchants, as Ma points out, provided 'credit, capital, and business partnership' and lineage members were often the key personnel of the firm, such as managers. Such organisational forms gave the Hui Merchants great competitive advantage and helped them expand their market share dramatically.

From 1895 (The War of Jiawu) to 1911 (the end of the Qing Dynasty)

The Opium Wars forced the Qing Dynasty to open its doors to foreign trade, and subsequently Chinese firms began to adopt modern production technology. After a series of military defeats and unequal treaties, the Qing Dynasty became a state in which feudalism and foreign imperialism co-existed. It was difficult for ordinary Chinese families to start a business in this environment, but the first generation of modern Chinese family firms did emerge in several industries during the next period. The first Sino-Japanese War, also known as the War of Jiawu (1894 to 1895), dramatically exacerbated the crisis and further pushed the Qing Dynasty to the edge of collapse. We examine in this sub-section the further development of Chinese family business after the War of Jiawu.

The war placed the Qing Dynasty into deeper political, social, and economic crises. According to the Treaty of Maguan signed in 1895, the Qing paid a total of over 8,500 tons of silver to Japan as a war indemnity, and was forced to cede Penghu and Taiwan to Japan. In 1900, the Eight-Power Allied Forces (Britain, the USA, Germany, France, tsarist Russia, Japan, Italy, and Austria) invaded Beijing and forced the Qing governors to flee to Shanxi province. This defeat required the Qing to sign the Treaty of Xinchou in 1901. Under the treaty, the total payment made by the Qing Dynasty to the Alliance accounted for more than 10 times the annual fiscal income of the Qing. The War of Jiawu, the Treaty of Shimonoseki (Maguan) and the Treaty of Xinchou made many Chinese realise that their state was in an unprecedented crisis, and must be saved, amongst other means, through the further development of modern manufacturing. This wave of patriotism led existing family businesses to expand their operations, and new entrepreneurs to start their own enterprises. Thus, compared to the period before the War of Jiawu, the post-war period witnessed a rapid development of Chinese family business.

The defeat in the War of Jiawu also led the Qing Dynasty to consider a series of new

policies favouring capitalism. The Guangxu Emperor, for instance, adopted a package of policy suggestions made by Youwei Kang representing a free capitalist ideology, hoping thereby to save the dynasty from the crisis. The fundamental objectives of the reform were to adopt market practices and promote privately held enterprises in manufacturing, commercial, banking, and other industries while limiting the role of the state in business activities. The reform, therefore, reflected an ideology that was fundamentally different from that of feudalism, and was consistent with trends in the capitalist world. The reform, however, failed after only about 100 days but it significantly promoted the ideology of capitalism, and greatly encouraged many Chinese to commence business activities to save the country.

As Chan points out,⁴⁷ two dominant types of firm existed in late imperial China: those with official status and those that involved setting up and managing private enterprises. Many successful family firms started with teams of brothers who excelled at different aspects,⁴⁸ thus complementing each other in managing the family firm. Family members accounted for an overwhelming majority of management personnel. Liu Hongsheng, who founded the China Match Company, initially hired professional managers to run his factories. However, when his 13 children returned home after studying abroad, he replaced his professional management team with his sons and daughters.⁴⁹ The participation of children in the business often led to dynamic tensions as the family sought to balance the empowerment and independence of the next generation with the authority of the founder and the view that family needs came before individual preferences.⁵⁰ It was not unusual that later generations of brothers or cousins disagreed on business strategies and operations and divided the firm, such as in the case of the Kin Tye Lung Company.⁵¹

Individual businessmen, who had gained their experience through working at Western firms, set up China's first group of Western-style manufacturing firms during the 1870s.⁵² Such firms were established usually with other managers appointed by local governments. 'Official supervised-

merchant managed' enterprises were a typical form of such state sponsorship,⁵³ which, according to Chan,⁵⁴ was the first stage of China's modern-style enterprises, followed by 'official-merchant jointly managed' enterprises and 'merchant-managed' enterprises. Governmental support was crucial to the survival and growth of enterprises, but its deep involvement had potentially negative impacts contributing to the eventual demise of some firms. Lai analyses the China Merchants Steam Navigation Company,⁵⁵ and shows that the company prospered when merchant managers operated the firm but faltered when government officials gained control and management of its operations.

The first generation of Chinese entrepreneurs who started family businesses reflected a range of different backgrounds. Zhang Jian was an 'official-turned-entrepreneur',⁵⁶ while Liu Hongsheng was a comprador for a British mining company.⁵⁷ As noted in Hao,⁵⁸ former compradors played crucial roles in promoting private enterprises, especially the family business model, in China's early industrialisation. The process by which former compradors successfully started their own family businesses remains under-studied.⁵⁹ However, Chan concludes from Liu Hongsheng's case that prior experience as compradors enabled these individuals to launch their own businesses, first by exposing them to Western business management, then by expanding their business networks, and finally by providing start-up capital.⁶⁰

Family business in China continued to grow in the wake of China's defeat. Dasheng, a shareholding company with limited liability, was a major family enterprise owned by Zhang Jian, and represented an historic shift from government-affiliated enterprises to privately owned and managed ones in modern China.⁶¹ Köll's analysis of Dasheng's governance, accounting, and control shows that both Western-style governance and China's traditional arrangements played a crucial role in shaping the modern family business in China. According to Bian, Dasheng's evolution represents

‘China’s long transition from the political economy of an agrarian society to that of an industrial society’.⁶²

Investment in traditional industries, such as silk reeling and cotton textiles, was significantly increased and expanded to provinces beyond coastal ones. New investments were also made in industries that had been emergent before the war. For instance, by 1913, two years after the demise of the Qing Dynasty, there were 57 flour mills, 91 machinery factories, and 64 match factories operated by family businesses.⁶³ The cigarette industry was also newly emerging at this time. According to Xu and Wu, around 1906, roughly 16 cigarette factories were founded by Chinese business families.⁶⁴

During the post-Jiawu period, several Chinese family firms were newly founded, and have remained in operation ever since. ChangYu Wine Company, for instance, was established by Mr. Bishi Zhang in 1892, and marked the start of the industrialised production of wine in China.⁶⁵ His nephew, Mr. Chengqing Zhang, served as the first general manager of ChangYu. Over more than a century of growth, the company became one of the largest wine producers in Asia and a publicly listed company.

Chinese family business experienced rapid expansion after the War of Jiawu, out of concern for saving the country from political and economic crises, and thanks to the increasing popularity of capitalism. At the beginning of the twentieth century, the central government offered incentives to those who set up modern-style businesses. In January 1904, the government promulgated China’s first set of company laws to help protect the property rights of individual investors,⁶⁶ thus further boosting family business development. The overall effect was controversial however.⁶⁷

China’s Company Law followed the example of the laws in Japan and Britain and aimed

to create a better legal environment for private business.⁶⁸ It was supposed to be a milestone event in the industrialisation of modern China, but its effect was limited due to the lack of regulatory effort to support a capital market.⁶⁹ Using Dasheng as an example, Goetzmann and Köll document that the changes did not bring about significant changes to family enterprises.⁷⁰ For instance, board members of Dasheng served as auditors, who were under the immediate influence of the owner, Mr. Zhang Jian. Furthermore, it has been argued that the incorporation of Chinese family firms did not improve the protection of shareholders, nor did it help curb managerial power.⁷¹ The Company Law did not provide specific regulation on financial reporting, thus rendering accounting reports from Chinese enterprises rather vague. Lack of transparency in financial reporting seems to be a necessary condition for family firms to extract private benefits,⁷² and the deficiency in accounting regulation in the 1904 Company Law supports the observation of Köll that shareholders' benefits were not protected.⁷³

Even with the existence of this Company Law, self-regulating activities still dominated, and much of the authority in this regard was granted to guilds.⁷⁴ Furthermore, as Zelin notes, guilds were the principal members of the Chambers of Commerce, and commercial disputes, if they arose, were discussed and solved within the Chambers. In other words, business organisations, especially family businesses, continued to rely on guilds to regulate their market transactions. Such informal institutions proved to be more effective and efficient and less costly, given China's market circumstances and institutional environment. In our view, family business in today's China might gain insight from this history of self-regulation.

According to Goetzmann and Köll,⁷⁵ only a fraction of Chinese family firms registered with the Chinese government, as they feared that such registration might result in the loss of control over management and family wealth. Goetzmann and Köll also demonstrate that the actual controller and manager of Chinese family firms was not necessarily the majority shareholder, a common pattern

among Chinese shareholding companies in the early twentieth century.⁷⁶ In their analysis of the ownership structure of Dasheng, Zhang Jian's family owned only 6.4 per cent of all shares, suggesting the existence of a large number of minority shareholders.⁷⁷ The protection of these minority interests continues to be the primary concern of the China Securities Regulatory Commission (CSRC, the Chinese counterpart of the US Securities and Exchange Commission).

Traditional industries continued to grow, and new industries were explored. Both successful (such as ChangYu) and unsuccessful firms (such as those in the cigarette industry) were founded. The then-flourishing family firms did not keep the Qing Dynasty from collapsing, but the emergence and initial growth of these companies did lay the foundation for family business development when the Republic of China (ROC), the first capitalist state in China's history, was established.

The Republic of China in Mainland China: from 1912 to 1949

The Xinhai Revolution led by Yat-sen Sun eventually overthrew the Qing Dynasty, and led China into a republican era, that of the ROC. The ROC officially brought the end to over 2,000 years of feudalism in China, and began the journey towards the modernisation of China. The early decade of the ROC, from 1916 to 1928, was marked by frequent wars, and also known as the Warlord Era. The Kuomintang, the governing party of the ROC, reunited mainland China in 1928, but then entered into a war with Japan in 1937. After the war was ended in 1945, a civil war resumed between the Kuomintang and the Communist Party of China, which saw the latter become the ruling power in 1949. The Kuomintang retreated to Taiwan. The Xinhai Revolution is considered by many to have been China's bourgeois democratic revolution, and the ROC, despite its relatively short history in mainland China, played an unprecedented role in promoting modern capitalism. In the following paragraphs, we discuss family business development under the ROC during four periods, 1914–1920, 1921–1936, 1937–1945 and 1945–1949, as identified by Xu and

From World War I to 1920

Family-run business gained great momentum during World War I; it was claimed as the ‘Golden Time’ of development.⁷⁹ There were several contributing factors. First, the end of feudalism with the collapse of the Qing Dynasty opened the door for capitalism. Second, the Xinhai Revolution and the establishment of the ROC motivated the Chinese public/business community to contribute to the new China by devoting both effort and capital to modern business activities, and also played a significant educational role. Due to the boycott against foreign products, demand for domestically produced goods also increased. Lastly, the development of family business in China had been severely constrained by foreign investment and had faced fierce competition in its home market, especially as foreign investment had enjoyed most-favoured-nation status in China. World War I reduced these external pressures on family business in China.

As noted earlier, the cotton textile industry was one of the major industries favoured by family businessmen. It enjoyed double-digit growth during World War I and the period immediately after the war, and profitability reached an historic high.⁸⁰ Several giant groups emerged during this time, including the well-known Rong family.⁸¹ The Rong brothers founded their first cotton factory in 1916, but in a short period of time expanded it into a nine-factory group, the biggest family firm in the cotton textile industry.

Similarly, the Liu family of Shanghai expanded its operations and took advantage of its opportunities in matches, cement, woollens and textiles to provide the basis for a multi-generational business. It also made use of network connections, including political ones, to further its interests and to position the family business amidst the dynamic events of the twentieth century.⁸²

Flour mills grew rapidly during this period as well, as World War I put a great demand on

industrial production to supply troops. According to Xu and Wu,⁸³ 86 new mills were established between 1914 and 1920, and China became an exporter of flour during the war. Similar to the cotton textile industry, large family groups dominated flour production. The Rong brothers founded their first flour mill in 1903 and owned 12 such factories during the war. The return on assets during this period for flour production well exceeded 100 per cent.⁸⁴ Silk reeling was the first industry to see family business emerge, but its development was not as rapid as that experienced by other industries during the war. Japan had become the major player in the world market for silk production.⁸⁵ In addition to these major industries, family businesses continued to develop in other sectors, including match production, machinery, chemistry, and cement. They also entered new industries during the war, such as paint production and rubber.

From 1921 to 1936

Family business in China experienced a period of slow development after World War I. Renewed conflicts among warlords devastated the social and economic lives of the Chinese population. More than 140 wars constrained further development of family business; the Central Plains War in 1930 alone was reported to have caused over 300,000 casualties. In addition, foreign investment in China after World War I dominated many industries, which directly affected family firms' survival and growth.

The cotton industry was still one of the major industries in mainland China, but market conditions had changed dramatically.⁸⁶ Japanese firms expanded their investment in an unprecedented fashion, and became the major supplier of textile materials in mainland China. As Xu and Wu comment, imports by foreign textile firms were the dominant force in the cotton industry, but thanks to the Golden Period during World War I, exports exceeded imports at the end of 1930. The success of Japanese cotton companies in China again put family business in China

under the competitive pressure of foreign capital. Japanese cotton factories were believed to have more up-to-date technology and better personnel management, giving them competitive advantages over family-controlled Chinese firms. Japanese competitors' operating advantages, along with the shock resulting from the Great Depression, caused tremendous difficulties for their Chinese counterparts; many Chinese family businesses in the cotton industry were acquired by Japanese firms during the 1930s. It is worth noting that, in the 1980s, when China opened its doors to foreign investment, Japanese textile companies operating in mainland China were still enjoying competitive advantages in technology and management, which forced many state-owned Chinese textile factories to close down or to reform regulations regarding the property rights of investors. Technology application and innovation, personnel management, and cost management have long been competitive advantages of Japanese firms.⁸⁷

Compared to many family-run firms that struggled to survive and grow during this period, the Rong family group continued to grow exponentially. By the 1930s, the Rong family owned nine textile factories in addition to their investments in other industries.⁸⁸ The expansion of the Rong family group relied heavily on bank loans, which allowed it to acquire other cotton factories that were experiencing operating difficulties. Access to capital provided by banks and other financial institutions has always been critical for family firms, especially privately held ones,⁸⁹ and more than half of the privately held firms around the world are known to rely on bank debt (or debt financing).⁹⁰ Such access to external capital is particularly important for privately held family businesses, as these firms lack access to public equity markets; borrowing from banks enables them to maintain control, which is the dominant concern for family-controlled business.⁹¹

The Rong group's access to and reliance on bank loans were crucial in this period. As mentioned earlier, the Japanese textile companies were bigger and stronger and took advantage

of economies of scale, which allowed them to reduce their operating costs to a much greater extent than could their Chinese counterparts. To compete with Japanese companies, growing bigger seemed to have been the obvious choice, but it is not completely clear how the Rong family successfully gained support from its lenders. Several factors may account for its financing success. First, the banking and finance sector (not covered in this study due to our focus on manufacturing) also gained great momentum after World War I. Stated simply, the supply of bank loans was increased. Second, anti-Japan activities, prevalent throughout the modern history of China, were especially so after the War of Jiawu. In the early 1930s, Japan occupied North Eastern China, which further motivated China to fight against Japan and boycott its businesses. The Rong family business, as a symbol of Chinese family-run enterprise, may have received support from banks that were also owned by Chinese businessmen. Third, the Rong family had early success in other industries, such as the operation of flour mills. As a result, it may have been able to provide more collateral to secure loans. Lastly, as North comments,⁹² personal exchange and relationships dominate economic activities in China. The Rong family had remained successful since starting its business in the late nineteenth century. Its accumulated social capital likely would have helped it to access bank financing.

Flour mills and silk reeling remained major industries during this period, but development was slow.⁹³ The tobacco industry grew dramatically; 118 tobacco factories were founded by Chinese business families over a four-year period in Shanghai alone.⁹⁴

From 1937 to 1945

As noted earlier, the War of Jiawu, the first major war between China and Japan, pushed China into financial bankruptcy. The second Sino-Japanese war occurred between 1937 and 1945, within the broader conflicts of World War II. The war cost the lives of 15 million Chinese nationals, and forced 60 to 95 million people to abandon their homes.⁹⁵ In 1931, Japan invaded the north-

eastern region of China, and created the puppet Manchu State (1932–1945). Therefore, part of China was under the actual control of Japan from 1931 to 1945. From 1937 to 1945, Japan occupied many provinces of mainland China and, as a result, we discuss family business first in regions occupied by Japan, and then in regions outside the war zones.

Family business in regions occupied by Japan

Building on the work of Xu and Wu,⁹⁶ we discuss several key industries in regions occupied by Japan, including cotton factories, flour production and silk reeling. Chinese family business was not eliminated by the war in these provinces, but its survival and development was extremely difficult. Before the war, Chinese family businesses were competing fiercely with Japanese-invested textile companies in the cotton production industry, but many factories were seized by the Japanese government during the war. As documented by Xu and Wu, a number of very small cotton factories were founded during the war, to escape Japanese oversight and control, as these small firms were relatively easy to move. Flour production continued to be important, as it was needed to support the troops. Similar to the cotton industry, many small flour mills were founded during the war because of their flexibility. As Xu and Wu note, about 400 such mills existed in the provinces occupied by Japan. Silk reeling was another industry in which Chinese firms competed with their Japanese counterparts for global markets. During the war, many Chinese firms were destroyed or seized by the Japanese army, and again small silk-reeling factories became popular. Therefore, in the provinces occupied by Japan, family-owned and operated Chinese businesses faced extremely high operating risk. Such companies were under the tight control of the Japanese, but some managed to survive.

Family business in regions outside the war zones

As Xu and Wu indicate,⁹⁷ about 600 factories owned and run by Chinese businessmen were

moved to provinces outside the war zones. These companies played a great role in supporting the economy and the army. Given the demand placed by military forces, new investments made by Chinese business families focused on heavy industries, such as steel production and machinery, but traditional industries, such as cotton, still accounted for a large part of the family-run sector.⁹⁸

It is perhaps not surprising that steel manufacturing became the favourite of Chinese business families; about 100 steel companies existed in provinces outside the war zones.⁹⁹ Steel production was considered the lifeline of modern manufacturing, and this was especially the case during wartime. This trend continued after the PRC was founded in 1949. Steel production was also claimed by authorities to be the key pillar of economic development. During the Great Leap Forward, small furnaces could be found throughout the country. Investment in the steel production industry during the war had several features. First, many family-controlled steel companies were built based on the factories that had been moved in from other provinces that were occupied by the Japanese. Second, these family-run businesses were the dominant suppliers of steel for military and production use during the first several years of the war. Third, it appeared that Chinese businessmen, although pursuing their profits to the largest extent, were still showing their patriotism. Lastly, many firms appointed those with education and work experience abroad as their CEOs, as technology was the key for these firms to succeed as these skills were linked to the technological knowledge critical for firm success.

Like those family firms in the provinces occupied by the Japanese, many family businesses in the provinces outside the war zones preferred to be smaller in size. When the Japanese invaded, many businesses did not have a chance to move their operations to the war-free zone; some equipment was too big to be moved due to the lack of transportation. Given the uncertain nature of the war, many family firms decided to reduce their operating size, and were prepared to move again, if necessary. Small and medium-sized enterprises (SME) are the engine of economic development,

and have played an indispensable role in economic growth and employment.¹⁰⁰ It is not unlikely that such SMEs were playing a similar role in the war-free zone at this time. Today, many privately held SMEs frequently engage in mergers and acquisitions (M&As) and aspire to grow bigger, with some considering an initial public offering (IPO) the ultimate sign of success.¹⁰¹ However, being small was critical for family firms in the war-free zone during this period. In addition to increased flexibility, being small may have enabled many of these family firms to effectively and efficiently manage their workforce. Lack of skilled management had long been a concern for family firms in China, even though they could purchase advanced equipment. The lack of effective management resulted in lower efficiency and higher operating costs, explaining in part the competitive disadvantage many Chinese family firms had faced relative to Japanese and other foreign companies.

Coble argues that the war devastated family businesses in China.¹⁰² Yet he further shows that firms adopted various strategies to deal with the war and the Japanese occupation. The Rong family, according to Coble, did not relocate its companies to the war-free zone, and most family businesses in the textile and consumer industries remained where they were. Such firms partially collaborated with the Japanese authorities or their puppet agency in order to survive. The adaptability of Chinese family business during wartime remains an interesting issue. According to Coble, the Rong family tried its best to avoid working with the Japanese occupation, but made significant compromises to ensure its survival.

The Liu family adopted a strategy of dispersing the family to locations deemed strategic, including those under Japanese occupation and those that were not. This strategy relied upon the patriarchal authority of Liu Hongsheng and was maintained as an over-arching policy when the Lius were confronted with the political and economic impacts of the post-war era.¹⁰³

The south-western part of China was relatively under-developed before the war,

compared to the coastal provinces. The relocation of many family firms to these south-western provinces encouraged entrepreneurial activities there. Along with a number of other factors, increased investment in other industries, such as steel production, contributed to the restructuring of family business investment and also to the winning of the war. While many Chinese firms adapted and survived, the second China-Japan war, between 1937 and 1945, caused irreversible damage to many others. When the central government of the ROC moved to Chong Qing in 1937, many family firms made the decision to move there as well.

From 1945 to 1949

When the war ended in August 1945, wartime demand was eliminated. In the first several months after the war, most family businesses in the war-free zone experienced a significant drop in production and sales. Yet, the end of the war was great news and triggered a new wave of investment by business families. According to Xu and Wu, 1,992 and 9,285 family firms were newly founded or reopened in 1946 and 1947, respectively.¹⁰⁴ Many firms that had relocated to the war-free zone returned to the coastal provinces and cities, such as Shanghai.

The textile industry benefited the most from the end of the war. As noted earlier, Japanese textile companies were the main competitors of Chinese family businesses. The defeat in the war destroyed many Japanese companies that had been operating in China and some of them were acquired by Chinese firms. The sudden lack of competition gave Chinese cotton factories great momentum to expand their markets, while the import of raw materials from the USA significantly reduced the cost of raw materials.¹⁰⁵ The Rong family continued to be the largest capital group in China in the post-war period. Like many business families, the family business was divided into focused groups after the war. The silk-reeling industry had been the first in China to attract family investment, but had experienced a dramatic recession even before the war because of its inability

to compete successfully with Japanese exports. Silk-reeling companies, which operated in the occupied provinces during the war, were exploited and controlled by the Japanese. The industry did not fully recover after the war, and the resumption of civil war, discussed next, made the situation even worse.

The post-war period of peace was short in China. The civil war between the ROC led by the Kuomintang and the Communist Party of China (CCP) resumed in full scale in 1946. Some Chinese family businessmen decided to leave mainland China, but many others opted to stay. The Kuomintang, the leading political party at this time, was defeated in the civil war and many attributed its defeat, amongst other factors, to party corruption.¹⁰⁶ Family firms in mainland China had been exploited by the bureaucrats and foreign capital. The end of World War II led some businesspeople to believe that they would now experience a golden period of growth, but their dream was crushed by government corruption. Members of the Rong family, for instance, were subject to extortion and abduction after the China-Japan war, and had to pay significant sums of money to regain their freedom. The level of corruption put a hold on the continuing development of family firms in mainland China, despite the end of the war.

In 1947, amid the civil war, the central government of the ROC issued a series of economic policies, which imposed further regulations on family-controlled businesses and led to the bankruptcy of many family firms. In the meantime, the CCP gained increasing control.¹⁰⁷

Discussion

This study has implicitly drawn upon the embeddedness of Chinese family business within its institutional environment as a means to examine its historical development. As Uzzi argues,¹⁰⁸ research on embeddedness merits attention as it helps improve our understanding of how social structure, amongst other things, shapes economic life. In recognition of the contingent nature of

economic activities, Zukin and DiMaggio suggest four categories of embeddedness: cognitive, cultural, structural, and political.¹⁰⁹ Cognitive embeddedness refers to the ways in which ‘the structured regularities of mental processes limit the exercise of economic reasoning’,¹¹⁰ while cultural embeddedness refers to the role of ‘shared collective understanding in shaping strategies and goals’.¹¹¹ Structural embeddedness denotes the ‘contextualization of economic exchange in patterns of ongoing interpersonal relations’,¹¹² and political embeddedness, alternatively, involves ‘the manner in which economic institutions and decisions are shaped by a struggle for power that involves economic actors and nonmarket institutions, particularly the state and social classes’.¹¹³ Similarly, in the context of China during the late imperial period, family business emerged and its economic organisation, style, and behaviour were embedded in China’s cultural, social, and political context.¹¹⁴

Chai argues that family business in China originated in the late imperial period as a result of the interaction between Confucianism and rational decision making.¹¹⁵ Strategic uncertainty arose in the late imperial period, due to the invasion by foreign powers and the introduction of capitalism, the weakening of state control, the lack of institutions for enforcing contracts, and the advancement of new manufacturing technology. As a result, according to Chai, family business was built on mutual trust among individuals and family members who shared a common set of social norms.¹¹⁶ Confucianism and ‘kinship-based Confucian capitalism’ became a rational choice for doing business preferred by business actors,¹¹⁷ suggesting that family business as a unique organisational form was imbedded in, and to some extent shaped by, its cultural environment. Reliance on these shared social norms reduced the transaction costs of doing business, albeit at the risk of a loss of efficiency.

Traditional Chinese culture was also characterised by high power distance and filial piety.¹¹⁸ The head of the Chinese household had patriarchal authority, did not want to share his authority

with others, and expected other family members to obey his authority. When these individuals started their businesses, they might naturally have selected a family business to extend their authority from the household to the business, thereby exerting and maintaining control. In other words, familism in Chinese society represented ‘a way of organizing’, and this ‘model of group formation’ contributed to the adoption of the family business as a preferred style of economic organisation.¹¹⁹ As Hamilton argues, the heads of ordinary Chinese households were the driving force behind capitalism in the late imperial period, and individual entrepreneurs and the family business model played a crucial role in shaping economic activities. These entrepreneurs and family businesses were ‘embedded in extensive regional commercial networks’,¹²⁰ which represented another key element of Chinese society, social capital or *Guanxi*.¹²¹

In addition to cultural embeddedness, Chua and Chrisman document that historical developments in China might also have led entrepreneurs to prefer the family business model.¹²² Historical realities in China witnessed the frequent replacement of one dynasty by another, incessant wars and power struggles. Business owners with an intention for intra-family succession might indeed have been concerned, therefore, that able managers could have taken over the business or established a competing one.¹²³ To avoid such a possibility and to better conserve the family’s control and wealth, business owners preferred to employ those with blood relations and distant relatives when necessary. When opportunities arose in the late imperial period to start a modern-style business, a family-centred one would seem to have been the natural choice.

Political embeddedness characterised the environment of family business in the late imperial period. After foreign powers forced the Qing Emperors to open the border and imposed unequal treaties, foreigner-run businesses and state-owned enterprises co-existed and dominated economic activities in China. Individual Chinese entrepreneurs and family businessmen might have had the opportunity to join such companies, and some of them did indeed work for these firms. Yet, many

also had the intention of starting, controlling, and perpetuating their own business, along the lines of their own households.¹²⁴ The family business structure allowed them to limit firm size, to create flexibility, and to target markets under-served by foreign and state powers. Furthermore, some Chinese were not willing to work for either foreigners or the corrupt imperial state, and attempted to start up their own businesses, in the modern sense, to save the country. In other words, their economic activities were embedded in the political context of late imperial China, and reflected, at least in part, their political agenda as well. In sum, family business represented a unique and feasible organisational form in late imperial China, and one whose operations and structures were strongly embedded in the prevailing institutional context.

Conclusion and future research

This study provides historical evidence on the development of family business in mainland China; between 1872, when the first modern manufacturing firm was established by a Chinese businessman, and 1949, when the ROC was founded. This period is an important one in the history of China, during which the nation experienced tremendous political, economic, social, and cultural turmoil. Mainland China became a semi-colonial country during the late Qing Dynasty, adopted capitalism in 1911 when the ROC was founded, and saw the establishment of socialist China in 1949.

Firstly, the treaty system denied China the right to conduct foreign trade with Western powers on an equal basis.¹²⁵ Chinese Maritime Customs, set up after the war, was completely controlled and used by Western powers to govern China's foreign trade during the treaty port era.¹²⁶ It has long been argued that intrusion by Western powers damaged China's economic growth,¹²⁷ but recent studies show that, between the 1860s and the 1940s, the number of new products imported by China grew significantly, at a rate that was 50 per cent faster than the comparable percentage in the USA from

1970 to 2000.¹²⁸ The availability of new products in China opened the eyes of Chinese entrepreneurs and created possibilities for new (family) businesses. Further research is needed to understand the impact of this import diversity.

Secondly, Ho and Li demonstrate that some significant historic events, to which historians attach great importance, such as the civil wars in China in the first several decades of the twentieth century (e.g., the Northern Expedition, the Central Plain War, the War between Nationalists and Communists), failed to produce break points in China's then bond market.¹²⁹ In other words, the break points produced by their economic model did not correspond to some historic events, despite their significance. It is therefore both interesting and important to examine how family firms adapted to changes in their environment in general and reacted to specific events in particular. One possible avenue may lie in the political connections that some family firms enjoyed.

Thirdly, historians and business history researchers continue to debate key issues concerning the means by which the Chinese family business group was managed. In contrast to the prior perceptions of historians in mainland China that business groups, such as the Rong family business, operated in pre-war China using a hierarchical structure, evidence presented by Chan suggests that firms within the Rong group were quite independent in terms of marketing, purchasing, financing, and so on.¹³⁰ This argument raises an interesting question about how Chinese business families managed their diverse enterprises. Whether these family firms were run as a unified unit in which a hierarchical structure was imposed, or as a decentralised organisation in which each business unit had authority to make its own decisions, could provide important implications for family firms in China today, as they expand their operational scale and scope.

Finally, as noted earlier, some Chinese family businesses evolved from state-sponsored to private enterprises, reflecting a process of partial privatisation, which resembles the partial

privatisation process that has been taking place since China's openness reform of 1978. Yet, research has not been conclusive whether state involvement played a negative or a positive role. Further study from an historical perspective might shed light on this issue. Liu,¹³¹ for instance, describes the Hanyeping Company, which emerged as the largest iron and steel firm in East Asia in the 1900s. The company was under state control for most of this time. The history of Hanyeping witnessed constant failures of corporate governance and frequent cases of fraud. However, its third stage, the period during which the firm was run by private merchants, is not examined by Liu.

It is impossible in one study to fully address family business developments of this period. As a result, we have accounted for what we consider to be the most significant events and milestones in chronological order, and when possible have used typical family firms to provide illustrative examples. At this juncture, our analyses are primarily descriptive, and sacrifice depth in order to provide a relatively holistic picture over a long period of time. Nonetheless, our analysis indicates that Chinese family firms adapted to their institutional environment to develop strategies and structures adapted to their specific circumstances and context.

Our research also relies on evidence from manufacturing industries. Given the complex nature of family business development in mainland China before 1949, future studies at a more micro level would shed additional light on this important sector and also on specific industries. Family businesses in mainland China invested in many other areas of endeavour, from commercial services, banking and financial services, to transportation. Evidence obtained from studies focusing on these areas would provide the basis for comparative analyses. Similarly, given the extensive literature on family firms founded by Chinese entrepreneurs in other regions and countries, research comparing family firms in mainland China with those in other regions merits consideration.

While responding to Chua and Chrisman,¹³² we limit our analysis to enterprises founded,

owned and managed by business families in mainland China. Our initial research has led us to consider the existence of a hybrid form of business organisation in which both Chinese business families and bureaucrats founded the firm. This unique hybrid form may reflect an early form of political connection, one that has been studied extensively by researchers in economics, finance, management, and accounting.¹³³ Research examining political connections from an historical perspective would contribute another dimension to this stream of literature, in particular by underscoring historical antecedents of current organisational forms.

Our study does not examine how individual family firms in mainland China have evolved and adapted over time. Many firms founded more than a century ago presently exist. A case study making effective use of archival sources and investigating such firms, their strategies and their longevity would be a fruitful area for further research to shed new light on such topics.

Several important themes are worthy of further examination, such as the household division of work and responsibilities in the family business, intra-family succession, and family firm financing.¹³⁴ While neglected in the current study, primarily to maintain our focus, the important nature of such themes merits further discussion. We encourage future research to help improve our understanding, especially by using a comparative perspective to examine family business in the pre-1949 period relative to family business in today's China. First, household division of work and patriarchy in Chinese family firms are important dimensions. As Hamilton notes,¹³⁵ the oldest male in the family tends to assume the leadership role in the family business, thus extending and exerting control from the family to the business. Yet, Chinese history also provides numerous examples in which a female figure dominated all aspects of family life and business. During the past decades, family business in China has also seen women and married couples take control. It would, therefore, be interesting to compare family business in the twenty-first century with that in the pre-1949 period, highlighting changes and implications for business management and growth.

Second, succession is a key issue facing all family businesses, as business families want future generations to retain the business within the same family, enabling the family to enjoy both financial wealth and family-centred non-economic value, i.e., socio-emotional wealth.¹³⁶ Family business owners in today's China may have different concerns about this issue, compared to their counterparts in the pre-1949 period, as a consequence of the implementation of the one-child policy.¹³⁷ Furthermore, the next generation has been frequently reluctant to work in the family business, exacerbating the succession issue. As a result, investigation of family business succession across these two periods may indeed add insight into family business management and business history research.

Lastly, family business financing, like other entrepreneurial financing, has proved challenging. Family goals, either financial or non-financial, could be compromised if the family were unable to raise sufficient funds at an acceptable cost of capital. The Rong family's financing strategy and success in the pre-1949 period helped the business to grow into one of the best-known family businesses in China.¹³⁸ However, such a strategy might not apply to present-day Chinese firms due to the different financial institutions that prevail today and the existence of emerging capital markets. Future research is needed to shed light on the impacts of different financing practices over time.

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1. Bian, “Interpreting Enterprise, State, and Society,” 456.
 2. Zheng, “Chinese Family Business,” 277–294.
 3. For further details, see Pistrui et al., “Entrepreneurship in China,” 141–152; Ding et al., “The Financial and Operating Performance of Chinese Family-Owned Listed Firms,” 297–318; Lu and Tao, “Contract Enforcement and Family Control of Business,” 597–609; Kim and Gao, “An Empirical Study of Human Resource Management Practices in Family Firms in China,” 2095–2119; Chua and Chrisman, “An Overview of Research Issues on Family Businesses in China,” 220–233; Ding et al., “Accounting Properties of Chinese Family Firms,” 623–640; Cai et al., “Family CEOs,” 923–947.
 4. La Porta et al., “Corporate Ownership around the World,” 471–517.

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5. Zelin, "The Firm in Early Modern China," 623–637.
 6. *Ibid.*, 624.
 7. Zheng, "Chinese Family Business, Stock Market and the Haiwankong Financial Network." 278.
 8. Feuerwerker, "Doing Business in China over Three Centuries"; Chan, *Merchants, Mandarins, and Modern Enterprise in Late Ch'ing China*; Nielsen, "The Flower that didn't Bloom"; Pomeranz, "Gentry Merchants' and Partnership Revisited"; Pomeranz, *The Great Divergence*.
 9. Faure, *China and Capitalism*.
 10. Zeitz, "Do Local Institutions Affect All Foreign Investors in the Same Way?"
 11. Chan, "Personal Styles, Cultural Values and Management".
 12. Cochran, *The Lius of Shanghai*.
 13. Kirby, "China Unincorporated".
 14. Meissner, "The Business of Survival".
 15. See further, Choi, "Kinship and Business"; Tsang, "Learning from Overseas Venturing Experience"; Tsui-Auch, "The Professionally Managed Family-ruled Enterprise"; Cochran, *The Lius of Shanghai*.
 16. See, for example, Hang and Godley, "Revisiting the Psychic Distance Paradox".
 17. Chua and Chrisman, "An Overview of Research Issues on Family Businesses in China".
 18. Family businesses existed in mainland China well before 1872. The Ruifuxiang Company, for instance, was a family-owned commercial enterprise founded in the seventeenth century (Zelin, "The Firm in Early Modern China"). However, we limit our scope to manufacturing firms and adopt 1872 as our starting point, as the first modern manufacturing family firms were founded in that year.
 19. Goetzmann and Köll, "The History of Corporate Ownership in China".
 20. Gómez-Mejia et al., "The Bind that Ties".
 21. Cochran, *The Lius of Shanghai*.
 22. Dirlik, "Chinese History and the Question of Orientalism"; Dirlik, "Reversals, Ironies, Hegemonies"; Greenhalgh, "De-Orientalizing the Chinese Family Firm".
 23. Kirby, "China Unincorporated".
 24. Zhang, *A Three-hundred-year History of the Qing Dynasty*.
 25. *Ibid.*
 26. We use the term 'unequal treaty' with full awareness of its contested nature. As noted by Dong Wang, *China's Unequal Treaties: Narrating National History*, the term 'was invented mainly through the exploitation, by different historical agents, of its emotional and political connotations. Yet this topic is missing from the current lively discussion of political ceremonies and symbols in China's national awakening and identity building...' (p. 400). For further insights into the rhetoric of unequal treaties and the role of these treaties in the construction of Chinese nationalism, the work of Dong Wang is recommended.
 27. Feuerwerker, "Doing Business in China over Three Centuries".
 28. Kasaba, "Treaties and Friendships".
 29. Chan, "Chinese Entrepreneurship since its Late Imperial Period", 479.
 30. Xu and Wu, *The History of Capitalism in China: Volume 2*.
 31. Kaplan et al., "Should Investors Bet on the Jockey or the Horse?"
 32. Li, "Silks by Sea".
 33. Xu and Wu, *The History of Capitalism in China: Volume 2*. The province of Guangdong neighbours Hong Kong, which was ceded to Britain after the First Opium War of 1840. Guangdong's close proximity to Hong Kong has made it the stronghold of foreign trade in China.

When the PRC implemented its economic reform in 1978, the first Special Economic Zone was located in Guangdong after taking into consideration, amongst other factors, its proximity to neighbouring Hong Kong.

34. Goetzmann and Köll, “The History of Corporate Ownership in China”.
35. Kaplan et al., “Should Investors Bet on the Jockey or the Horse?”.
36. Shane, *Born Entrepreneurs, Born Leaders*.
37. Xu and Wu, *The History of Capitalism in China: Volume 2*.
38. Ibid.
39. Ibid.
40. Xu and Wu, *The History of Capitalism in China: Volume 2*; Reed, *Gutenberg in Shanghai*.
41. Xu and Wu, *The History of Capitalism in China: Volume 2*.
42. Churchill and Hatten, “Non-market-based Transfers of Wealth and Power”; Chua et al., “Defining the Family Business by Behaviour”.
43. Zelin, *The Merchants of Zigong*.
44. Bian, “Interpreting Enterprise, State, and Society”.
45. Zelin, *The Merchants of Zigong*, 84.
46. Ma, “Growth, Institutions and Knowledge”.
47. Chan, “Chinese Entrepreneurship since its Late Imperial Period”.
48. Ibid.
49. Chan, *Business Expansion and Structural Change in Pre-war China*; Cochran, *Encountering Chinese Networks*; Cochran, *The Lius of Shanghai*.
50. Cochran, *The Lius of Shanghai*.
51. See further Chan, “Chinese Entrepreneurship since its Late Imperial Period”.
52. Ibid.
53. Bian, “Interpreting Enterprise, State, and Society”.
54. Chan, *Merchants, Mandarins, and Modern Enterprise in Late Ch’ing China*.
55. Lai, “The Qing State and Merchant Enterprise”.
56. Bian, “Interpreting Enterprise, State, and Society”, 428.
57. Chan, *Business Expansion and Structural Change in Pre-war China*.
58. Hao, *The Comprador in Nineteenth Century China*.
59. Bian, “Interpreting Enterprise, State, and Society”.
60. Chan, *Business Expansion and Structural Change in Pre-war China*.
61. Köll, *From Cotton Mill to Business Empire*.
62. Bian, “Interpreting Enterprise, State, and Society”, 428.
63. Xu and Wu, *The History of Capitalism in China: Volume 2*.
64. Ibid.
65. Godley, “Bacchus in the East”.
66. Chan, *Merchants, Mandarins, and Modern Enterprise in Late Ch’ing China*.
67. Kirby, “China Unincorporated”.
68. Goetzmann and Köll, “The History of Corporate Ownership in China”.
69. Ibid.
70. Goetzmann and Köll, “The History of Corporate Ownership in China”; Köll, *From Cotton Mill to Business Empire*.
71. Köll, *From Cotton Mill to Business Empire*.
72. Anderson and Reeb, “Founding-family Ownership and Firm Performance”.
73. Köll, *From Cotton Mill to Business Empire*.
74. Zelin, “Chinese Business Practice in the Late Imperial Period”.
75. Goetzmann and Köll, “The History of Corporate Ownership in China”.

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76. Ibid.
 77. Ibid.
 78. Xu and Wu, *The History of Capitalism in China: Volume 2, Volume 3*.
 79. Xu and Wu, *The History of Capitalism in China: Volume 2*, 864.
 80. Xu and Wu, *The History of Capitalism in China: Volume 2*.
 81. Chan, "Making Sense of the 'Business Group' in Modern China".
 82. Cochran, *The Lius of Shanghai*.
 83. Xu and Wu, *The History of Capitalism in China: Volume 2*.
 84. Ibid.
 85. Ibid.
 86. Xu and Wu, *The History of Capitalism in China: Volume 3*.
 87. Cooper, "Japanese Cost Management Practices".
 88. Xu and Wu, *The History of Capitalism in China: Volume 3*.
 89. Petersen and Rajan, "The Benefits of Lending Relationships", "The Effect of Credit Market Competition on Lending Relationships"; Chua et al., "Family Involvement and New Venture Debt Financing".
 90. Pacter, "An IFRS for Private Entities".
 91. Gómez-Mejía et al., "The Bind that Ties"; Berrone et al., "Socioemotional Wealth in Family Firms".
 92. North, "The Chinese Menu (for Development)".
 93. Xu and Wu, *The History of Capitalism in China: Volume 3*.
 94. Ibid. Nanyang Brothers Tobacco Co. Ltd., established in 1905, is one of the most successful tobacco companies to have been founded by Chinese. However, since it was founded in Hong Kong and we are focusing on mainland China, we do not cover this well-known family firm in our study.
 95. Mitter and Moore, "China in World War II, 1937–1945".
 96. Xu and Wu, *The History of Capitalism in China: Volume 3*.
 97. Ibid.
 98. Ibid.
 99. Ibid.
 100. Chen et al., "Effect of Foreign Ownership on Cost of Borrowing".
 101. Kaplan et al., "Should Investors Bet on the Jockey or the Horse?".
 102. Coble, *Chinese Capitalists in Japan's New Order*.
 103. Cochran, *The Lius of Shanghai*, 356.
 104. Xu and Wu, *The History of Capitalism in China: Volume 3*.
 105. Ibid.
 106. Bagby, *The Eagle-Dragon Alliance*.
 107. Family firms operating in the provinces governed by the CCP are beyond the scope of this study.
 108. Uzzi, "Social Structure and Competition in Interfirm Networks".
 109. Zukin and DiMaggio, *Structures of Capital*.
 110. Ibid., 15–16.
 111. Ibid., 17.
 112. Ibid., 18.
 113. Ibid., 20.
 114. Gan, *Research of Chinese Family Business*.
 115. Chai, "Culture, Rationality and Economic Institutions in East Asia".
 116. Ibid.

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117. Ibid., 16.
 118. Hofstede, *Culture's Consequences*.
 119. Hamilton, *Commerce and Capitalism in Chinese Societies*, 222.
 120. Ibid., 135.
 121. Chua and Chrisman, "An Overview of Research Issues on Family Businesses in China".
 122. Ibid.
 123. Ibid.
 124. Hamilton, *Commerce and Capitalism in Chinese Societies*.
 125. Chan, "Chinese Entrepreneurship since its Late Imperial Period".
 126. Keller et al., "China's Foreign Trade".
 127. See, for example, Hou, *Foreign Investment and Economic Development in China 1840–1937*.
 128. Keller et al., "China's Foreign Trade".
 129. Ho and Li, "A Mirror of History".
 130. Chan, "Making Sense of the 'Business Group' in Modern China".
 131. Liu, "Revisiting Hanyeping Company (1889–1908)".
 132. Chua and Chrisman, "An Overview of Research Issues on Family Businesses in China".
 133. See, for instance, Khwaja and Mian, "Do Lenders Favor Politically Connected Firms"; Faccio, "Politically Connected Firms"; Fan et al., "Politically Connected CEOs, Corporate Governance, and Post-IPO Performance of China's Newly Partially Privatized Firms"; Bunkanwanicha and Wiwattanakantang, "Big Business Owners in Politics"; Berkman et al., "Political Connections and Minority-Shareholder Protection".
 134. We acknowledge one anonymous referee who recommended these themes for consideration.
 135. Hamilton, *Commerce and Capitalism in Chinese Societies*.
 136. Gómez-Mejía et al., "The Bind that Ties".
 137. Chua and Chrisman, "An Overview of Research Issues on Family Businesses in China".
 138. We thank one anonymous referee for pointing out the Rong's financing strategy.