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Review Of "Encountering Chinese Networks: Western, Japanese, And Chinese Corporations In China, 1880-1937" By S. Cochran

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Encountering Chinese Networks: Western, Japanese, and Chinese Corporations in China, 1880-1937. By Sherman Cochran. Berkeley, Los Angeles, and London: University of California Press, 2000. xii, 257 pp.

In *Encountering Chinese Networks*, Sherman Cochran challenges the view that there have been culturally distinct Western, Japanese, and Chinese styles of business management and organization. This view had its origin in the Chandler paradigm of the Western firm, which evolved from "personal capitalism" to "managerial capitalism;" the former stressed personal networks while the latter employed "managerial hierarchies." Japanese companies, according to other historians, also had vertical hierarchies, but ones that penetrated even lower into the organizational structure. Chinese businesses, on the other hand, have been characterized by their use of family and regional networks. Earlier economic histories saw the dependency on networks as a hindrance to efficient management, but in the 1980s, the success of the "Four Dragons" and the so-called Asian model of development led to a more positive evaluation of the role of family values and social networks.

In presenting the histories of six companies that did business in China in the late nineteenth and early twentieth centuries, Cochran firmly rejects the notion that each followed one style—either hierarchy or networks—to the exclusion of the other. Although some came closer to the expected paradigm than others, all of them—two American, two Japanese, and two Chinese—made some use of corporate hierarchy as well as of Chinese social networks. Since they were among the largest and most successful companies operating in China, clearly success did not depend on one model or the other, but, rather, on flexibility in choosing strategies.

The two American firms, Standard Oil and British-American Tobacco Company (BAT), not surprisingly, best embodied the Western management system. Western-style hierarchy—including the recruitment and strict training of Western and Chinese staff—was critical to Standard Oil's success in China. Yet for the first twenty years of its operation in China, 1883-1903, Standard Oil had depended on Chinese agents or compradors to handle its business, and they in turn relied heavily on their native-place networks. BAT also had a two-stage history. Initially it employed a dual-track marketing system: the first was a hierarchy headed by an American, James Thomas, and his English-speaking Chinese deputy, Wu Tingsheng. The second was a Chinese network headed by Zheng Bozhao, a commission agent who was unable to speak English and uncomfortable with Westerners. When Zheng's methods proved to be more competitive, BAT shifted to Chinese-style management that depended on networks of independent Chinese sellers. When BAT moved to manufacturing its cigarettes in China, most of the production process was left to Chinese foremen or "Number Ones."

Of the two Japanese companies studied, Mitsui followed the pattern of relying on Chinese compradors until 1898 when it turned its attention to the manufacture of cotton products and began to recruit and train Japanese personnel exclusively. Engaging in direct marketing, Mitsui consistently undersold its American competitors. The Nagai Cotton Company, on the other hand, first used

the Japanese model exclusively, but after being the target of anti-Japanese protest during the May 30th demonstrations of 1925, resorted to a hybrid system of Japanese managers and Chinese labor recruiters.

The two Chinese firms also differed significantly from each other. The Shenxin Cotton Mill, managed by China's best-known business family, the Rongs, was the classic example of reliance on Chinese family networks for the purpose of building managerial hierarchy, and the rejection of the Western model. The China Match Company established in 1930 by Liu Hongsheng used Western-style management practices to build a company that competed successfully against more established Western match companies. Yet Liu and his family controlled more than half of the company's stock. In addition Liu carefully constructed a new-style network from the Shanghai St. John's Middle School and University alumni, as well as drawing from his old-style Ningbo native-place network. The greatest challenge for both Rong and Liu, however, was securing the protection of the Guomindang leadership. After much difficulty Rong evaded control, while Liu succeeded in forming a government-approved monopoly of the match trade.

Based on extensive and painstaking multi-archival research and interviews, these six business histories constitute an important contribution to comparative business history and Chinese economic history. Cochran convincingly refutes the idea that there must be a convergence of business models; yet he also argues against essentialist notions of mutually exclusive and culturally determined Western, Japanese, or Chinese models. Indeed, as he concludes, the use of national models provides "no more than a convenient point of departure for understanding the past," or indeed the present, arguing instead for more attention to historical contingency and context (p. 186). The author's earlier book *Big Business in China: Sino-Foreign Rivalry in the Cigarette Industry, 1890-1930* (Cambridge, Mass., Harvard University Press, 1980) was a path-breaking study. Rich in historical detail and interpretive insight, this new book opens up more pathways and deserves to be widely read by business historians, Chinese historians, and all those interested in Asian business today.

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China and India: Economic Performance and Business Strategies of Firms in the Mid-1990s. Edited by Sam Dzever and J. Jaussaud. New York: St. Martin's Press, 1999.

A book seeking to compare the economic performance of India and China is undoubtedly very welcome. First, as the editors note, India and China constitute about 40% of the world's population, and both have embarked on a process of economic liberalization. The result of this liberalization holds enormous consequences for the people in these countries and also for the world economy at large. Second of all, there are few if any comparative studies of India and China.