

Trust

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CHAPTER 8

A Loose Tray of Sand

Wang Laboratories of Lowell, Massachusetts, began as a small family business. A maker of computer equipment, Wang had revenues of \$2.28 billion by 1984 and at one time employed 24,800 people, eventually making it one of the Boston area's largest employers.¹ An Wang, who founded Wang Laboratories in 1951, was born in Shanghai and emigrated to the United States when he was twenty-five. Wang Laboratories went public in the late 1950s and was one of the great American high-tech entrepreneurial success stories of the next generation. But when An Wang got ready to step down in the mid-1980s, he insisted on having his American-born son, Fred Wang, take over the business. Fred Wang was promoted over the heads of several more senior managers with proven track records, including John Cunningham, whom most people inside the company believed to be the logical successor to An Wang. The blatant nepotism evident in his promotion alienated a string of American managers, who quickly left the company.²

Wang Laboratories' subsequent fall was stunning, even for a company in the volatile computer industry. The company posted its first loss the year after Fred Wang took over the company. Ninety percent of its market capitalization had disappeared in four years, and in 1992 it filed for bankruptcy. The elder Wang eventually admitted that his son was in over his head as a manager and was forced to fire him.² Whether the one Chinese brand name familiar to many Americans will survive to the end of the 1990s is an open question.

The story of Wang Laboratories, though far removed from China itself, reveals a fundamental truth about Chinese business: despite the explosion of Chinese industry around the world in the past twenty years and the high-tech, modern facade of many Chinese companies, Chinese businesses continue to be based on family ties. The Chinese family provides the social capital with which to start up new businesses, but it also constitutes a major structural constraint on these enterprises that in many cases prevents them from evolving into durable, large-scale institutions.

Wang Laboratories' debacle demonstrates other aspects of Chinese culture. Some observers note that many of the problems that emerged after Fred Wang took over the company were actually the result of his father's management style. An Wang remained a highly autocratic CEO, unwilling to delegate authority. In 1972, when the company already had 2,000 employees, 136 people reported to him directly.³ An Wang was energetic and capable enough to make this typically Chinese hub-and-spoke management system work, and in some respects it increased esprit de corps throughout the company. But this management system is exceedingly difficult to institutionalize and hastened the company's decline when the elder Wang retired. We will see these management practices repeated throughout the Chinese business world. Their origins in the Chinese family are as strong as they are deep.

The Chinese constitute the world's largest racial, linguistic, and cultural group. They are spread across a vast geographic area and live in a wide variety of states, from the still-communist People's Republic of China, to overseas Chinese settlements in Southeast Asia, to industrial democracies like the United States, Canada, and Great Britain.

Despite this variation in political environment, it is nonetheless possible to speak of a relatively homogeneous Chinese economic culture. Its purest manifestations are in Taiwan, Hong Kong, and Singapore, where the Chinese are an ethnic majority and the state has not forced economic development along an ideologically determined path, as in the PRC. But

this culture can also be seen within the minority Chinese ethnic enclaves in Malaysia, Thailand, Indonesia, and the Philippines, and it has appeared in the open, private economy that has flourished in the PRC since Deng Xiaoping's economic reforms of the late 1970s. And, as the story of Wang Laboratories suggests, it is even evident among Chinese in the United States, despite the relatively higher degree of assimilation into the dominant culture there than in Southeast Asia. The fact that a similar pattern of economic behavior emerges whenever governments allow Chinese communities to organize their own affairs suggests that it is in some sense a natural outgrowth of Sinitic culture.

The first thing we notice in the industrial structure of Chinese societies like Taiwan, Hong Kong, and Singapore is the small scale of enterprises.⁴ In the West, Japan, and Korea, economic development has been accomplished more through rapid increases in the scale of economic enterprises than through growth in the number of enterprises. The opposite is true in Chinese cultures. In Taiwan, for example, of the 44,054 manufacturing enterprises that existed in 1971, 68 percent were small-scale enterprises, and another 23 percent were classified as medium scale, employing up to 50 workers.⁵ The number of such firms increased between 1966 and 1976 by 150 percent, while the average size of an individual enterprise measured by number of workers increased by 29 percent. In Korea, which followed a development path more like that of Japan or the United States, the opposite was the case: the number of manufacturing firms increased in the same period by only 10 percent, while the employees per enterprise increased by 176 percent.⁶ Although there are some large private Taiwanese companies, their scale is dwarfed by large private corporations in Korea. This difference clearly cannot be explained by the level of development, since Korea is usually held to be slightly behind Taiwan. Taiwan's largest private company in 1983, Formosa Plastics, had sales of \$1.6 billion and 31,211 employees, compared to the Korean conglomerates Hyundai and Samsung, which in that same period had sales of \$8.0 and \$5.9 billion and 137,000 and 97,384 employees, respectively. In 1976 the average Taiwanese firm was only half the size of the average Korean firm.⁷

Small firm size is, if anything, even more the rule in Hong Kong, which has long been famous as an exemplar of a highly competitive market composed of atomistic firms. Indeed, the average size of Hong Kong firms has actually declined: in 1947, there were 961 firms in Hong Kong employing 47,356 people, for a mean of 49.3 employees per firm, while

in 1984, there were 48,992 firms employing 904,709 people, or 18.4 employees per firm.⁸ Even in the industrial suburb of Kwun Tung, which was deliberately zoned to encourage larger firms, some 72 percent of the firms there employed fewer than 50 workers each, while only 7 percent had more than 200.⁹ This decline in firm size was partly due to the opening up of the PRC's Guangdong Province to Hong Kong business in the 1980s; many larger manufacturing firms moved to the mainland to take advantage of lower labor costs there. On the other hand, capital from the PRC poured into Hong Kong in a reverse flow and was used to establish a number of large corporations there. Data from other overseas Chinese communities suggest a similar pattern. In the Philippines, for example, the assets of Chinese firms are only one-third the size of non-Chinese firms.¹⁰ Of the 150 companies in a 1990 *Fortune* survey of the largest Pacific Rim corporations, only one—a Taiwanese state-owned oil company—was Chinese.¹¹

The small scale of Taiwanese industry is associated with another unique feature of Taiwanese development: much manufacturing is carried on outside large urban areas. As late as the mid-1960s, more than half of Taiwan's manufacturing labor force was employed outside the seven largest cities and nine largest towns.¹² A good deal of manufacturing consisted of cottage industries run by part-time farmers, as was the case also in the PRC after decollectivization. These firms were financed almost entirely from household savings, using family labor to produce low-tech plastic components, paper products, and the like.¹³

There have always been a number of large, state-owned companies in Taiwan, particularly in petrochemicals, shipbuilding, steel, aluminum, and most recently semiconductors and aerospace. Some of these companies were started during the Japanese colonial period and were taken over by the Nationalist government after it assumed power on the island in 1949. Alice Amsden has argued that the Taiwanese state sector has been ignored in many accounts of Taiwanese development, and these firms did indeed play an important role in the early years of the island's industrialization.¹⁴ But these large state enterprises were always the least dynamic part of the island's economy, and have accounted for a steadily decreasing share of gross domestic product over time. Many of them have run in the red and are kept going by the state for national security reasons, or because state ownership may be the only way for such a society to develop large-scale enterprises.¹⁵ It is the private business sector,

dominated by small enterprises, that has piled up such impressive growth statistics since the 1950s.

As in all other Asian societies, there exists among the Chinese another level of economic organization above that of individual enterprises, which might be collectively titled "network organizations."¹⁶ The largest and most famous of these are the Japanese *keiretsu* (known before World War II as *zaibatsu*) like the Sumitomo and Mitsubishi groups: alliances of companies, often centering around a bank, that hold each other's shares and deal with each other on a preferential basis. The Korean version of the network organization is known as the *chaebol*, among which are such well-known names as Samsung and Hyundai. These network organizations achieve economies of scale and scope on the level of leading Western firms but within a looser organizational form that permits a greater degree of flexibility than the equivalent vertically integrated American firm.

Taiwan also has network organizations, but of a very different nature. In the first place, they are much smaller than their Japanese or Korean counterparts: the six largest Japanese *keiretsu* average thirty-one firms per group,¹⁷ the Korean *chaebol* have eleven, and the Taiwanese network organizations average only seven firms each. The average firm size within each Taiwanese business group is smaller, and their role in the economy is much smaller. While the Japanese and Korean network organizations include the largest and most important enterprises in their respective economies, the Taiwanese groups are much more marginal: of the largest 500 manufacturing firms in Taiwan, only forty percent belong to business groups.¹⁸ These network organizations do not, like the Japanese *keiretsu*, center on a bank or some other financial institution. Most Taiwanese firms deal with a number of different banks, and the latter were, in any case, largely state owned.¹⁹ Finally, the nature of the ties linking members of the Taiwanese network organizations is different: they are largely based on family. In this respect they are much more similar to the Korean *chaebol*, whose linkages are also kinship based, than to the Japanese *keiretsu*, which are publicly owned corporations tied to one another through cross-shareholdings.²⁰

The reason for the small scale of enterprises in Chinese societies is that virtually all private-sector businesses are family owned and family managed.²¹ Although it is difficult to find accurate ownership statistics, evidence indicates that a vast majority of the small businesses dominating the economic life of Hong Kong, Taiwan, and Singapore are owned

by single families.²² The large, hierarchical, publicly owned, professionally managed corporation, which has been the dominant organizational form in Japan and the United States for many years, does not exist in culturally Chinese societies for all practical purposes.

This is not to say that there are not large enterprises or professional managers in the PRC, Taiwan, Hong Kong, or Singapore. The World Wide Shipping Company of Hong Kong, owned by the late Sir Yue-kong Pao, was at one time the largest in Asia, with offices around the world.²³ The gigantic Li Ka-shing empire, also based in Hong Kong, has successfully incorporated a large number of professional managers. There are a dozen billionaire families controlling large businesses in Taiwan and a comparable number in Hong Kong. Fifty-four percent of the Hong Kong stock market's capitalization is controlled by ten family groups (seven Chinese, one Jewish/British, and two British).²⁴

From the outside, these look like modern corporations, with far-flung offices in San Francisco, London, New York, and elsewhere. But these large companies remain family managed, with the regional offices often headed by a brother, cousin, or son-in-law of the founder back in Hong Kong or Taipei.²⁵ At the top levels of the company, the divorce of family ownership and family management has been much slower to occur than in Japan or the United States. The Li Ka-shing empire is being taken over by the elder Li's two Stanford-educated sons. The Pao empire, for its part, was run largely by four sons-in-law. The empire was split four ways among these branches of the family just before the elder Pao's death.²⁶

The fact that many of these large businesses are publicly listed on their local stock exchanges does not necessarily make them any less family controlled than their private counterparts. Families are usually reluctant to let their shares in their companies fall below thirty-five to forty percent—enough to guarantee them a major voice in management.²⁷ Moreover, many of the publicly listed shares are owned by a bank or financial company that is also controlled by the same family.²⁸ These layers of ownership often obscure the fact that a single family remains in control.

Family businesses are not unique to Chinese societies; almost all Western firms initially started out as family enterprises and only later acquired a corporate structure. What is striking about Chinese industrialization, however, and demonstrated dramatically in the case of Wang Laboratories, is the *very great difficulty Chinese family businesses seem to have in making the transition from family to professional management*, a step that is

necessary for the enterprise to institutionalize itself and carry on beyond the lifetime of the founding family.

The Chinese difficulty in moving to professional management is related to the nature of Chinese familism.²⁹ There is a very strong inclination on the part of the Chinese to trust only people related to them, and conversely to distrust people outside their family and kinship group.³⁰ According to Gordon Redding's study of Hong Kong businesses,

The key feature would appear to be that you trust your family absolutely, your friends and acquaintances to the degree that mutual dependence has been established and face invested in them. With everybody else you make no assumptions about their goodwill. You have the right to expect their politeness and their following of the social proprieties, but beyond that you must anticipate that, just as you are, they are looking primarily to their own, i.e., their family's, best interests. To know your own motives well is, for the Chinese more than most, a warning about everybody else's.³¹

The lack of trust outside the family makes it hard for unrelated people to form groups or organizations, including economic enterprises. In sharp contrast to Japan, Chinese society is *not* group oriented. This difference is captured in the saying of Lin Yu-tang, who spoke of Japanese society as being like a piece of granite, while traditional Chinese society was like a loose tray of sand, each grain being an individual family.³² This is what makes Chinese society at times appear highly individualistic to Western observers.

In traditional Chinese economic life, there is no figure comparable in social importance to the Japanese *banto*, the professional manager brought in from the outside to run the affairs of the family business.³³ Even small family businesses in Chinese societies frequently need the labor of nonfamily employees, but the relationship of these employees to the family-owners/managers is quite distant. The Japanese sense of the enterprise or company as a surrogate family does not exist. Nonfamily employees generally do not like working for other people and aspire not to lifetime employment with the same company but to break free and start a company of their own.³⁴ Comparative management studies have found that Chinese managers keep a much greater social distance between themselves and their employees.³⁵ The kind of spontaneous, egalitarian camaraderie that emerges when a Japanese manager goes out drinking in the evening with the people he supervises is much rarer in a

Chinese cultural context. Japanese-style company-sponsored events, in which an entire office—supervisors together with those supervised—will leave Tokyo or Nagoya on a retreat to a resort in the countryside for several days, are as foreign in a Chinese cultural setting as they are in the West. In Hong Kong or Taipei, the retreats and common vacations would be reserved for family members only, or perhaps occasionally for larger kinship groups.³⁶ Nonfamily managers in Chinese companies are not given large equity stakes in their businesses and often complain of a lack of openness when dealing with the boss. Furthermore, they usually hit a glass ceiling in promotion, since a family member will always be preferred for important positions.

In other words, the problem of nepotism, which Weber and others saw as a severe constraint on modernization, has not disappeared from Chinese economic life despite the remarkable recent economic growth of Chinese societies. It has been more tenacious in part because the family is more central to Chinese than to other sorts of cultures, and also because the Chinese have found ways of working around it. The founding entrepreneurs of many large, modern Chinese businesses try to deal with the problem of incompetent offspring by educating their children very well, sending them to business or engineering school at Stanford, Yale, or MIT. An alternative is to marry one's daughters in such a way as to bring new managerial talent into the family. The obligations of family run both ways: there are many instances of sons trained as doctors or scientists in America who have been summoned home to take over control of the family business. But there are limits to such strategies, particularly as the scale of the firm grows and the family is stretched thin.

The strong influence of family values leads to some unusual dilemmas for Chinese consumers that do not occur in other cultures. Consider the following description of shopping in Hong Kong:

Retailers are expected to give close kinsmen a lower price, but the kinsman is also expected to buy without a lot of quibbling. . . . One old lady carefully avoided shopping at the mixed goods shop run by her sister's son because she would feel obligated to buy once she went in. If she wanted a blue thing and all they had were red ones, she would have to take a red one. So she went to the shop of a non-kinsman where she could carefully look for something that exactly suited her taste, walk out if she didn't find it, and bargain fiercely if she did.³⁷

The strong distrust of outsiders and preference for family manage-

ment in Chinese societies leads to a distinctive three-stage evolutionary cycle for Chinese businesses.³⁸ In the first stage, the business is founded by an entrepreneur, usually a strong patriarch who then places his relatives in key management positions and rules the company in an authoritarian manner. The solidarity of the Chinese family does not mean that there are not significant tensions within it, but toward the outside world the family shows a united front, and disputes ultimately are settled by the authority of the founding entrepreneur. Since many Chinese entrepreneurs started out poor, the entire family is willing to work extraordinarily hard to make the business succeed. Although the business may hire non-family employees, there is little separation between the firm's finances and those of the family.

Under first-generation entrepreneur-managers, even if the business prospers and grows to a large scale, there is often no effort to move to a modern management system with a formal division of labor, a managerial hierarchy, and a decentralized, multidivisional form of organization. The company remains organized according to a highly centralized hub-and-spoke system, with the organization's various branches all reporting directly to the founding entrepreneur.³⁹ Chinese management style is frequently described as personalistic—that is, rather than relying on objective performance criteria, personnel decisions are made on the basis of the boss's personal relations with his subordinates, even if they are not relatives.⁴⁰

The second stage in the evolution of the family firm—assuming the business has been successful—occurs on the death of the founding patriarch. The principle of equal inheritance among male heirs is deeply ingrained in Chinese culture, and as a consequence all of the founder's sons find themselves with an equal stake in the family business.⁴¹ Although considerable pressure exists for all the sons to take an interest in the family business, not everyone is always so inclined. As in other cultures, pressures for conformity lead to rebellion, and many stories are told of sons who, having been sent off to business school in the United States or Canada, decide to major in the arts or some other field far removed from their father's money-making world. The partnership of those sons interested in managing the business is fraught with inherent tensions. Although they start with equal equity stakes, not all are equally competent or equally interested. The business has the best chance of surviving if one of the sons takes over leadership and recentralizes authority in himself. If this does not happen, authority is fragmented among the

brothers. The frequent result is disputes, which sometimes have to be resolved through formal, contractual delineations of authority. If the division of responsibility is not settled amicably, the heirs can descend into a power struggle for ultimate control of the company, which in some cases can lead to its breakup.

The third phase occurs when control passes to the founding entrepreneur's grandchildren. Those businesses that have survived this long tend to disintegrate thereafter. Since the sons often have unequal numbers of children, the grandchildren's shares vary in size. In the case of very successful families, the grandchildren have grown up in very well-to-do surroundings. Unlike the founding entrepreneur, they more readily take their prosperity for granted and are typically less motivated to make the sacrifices needed to keep the business competitive, or else they have developed interests in other types of activities.

The gradual decline in entrepreneurial talent from the first generation to the third is not, of course, something that occurs only in Chinese culture. It characterizes family businesses in all societies and has been labeled the "Buddenbrooks" phenomenon. There is, indeed, a traditional Irish saying reflecting the rise and fall of family fortunes: "Shirtsleeves in three generations." In the United States, the Small Business Administration estimates that eighty percent of all businesses are family owned, and only a third of them survive at all into the second generation.⁴² Many of the great American entrepreneurial families—the du Ponts, the Rockefellers, and the Carnegies—have seen similar declines. The children and grandchildren may go on to distinguished careers in other fields like the arts or politics (as Nelson and Jay Rockefeller did), but they seldom excel at running their forefather's organization.

The big difference between Chinese and American entrepreneurial families, however, is that by the time of the third generation, very few Chinese businesses have succeeded in institutionalizing themselves. American family businesses are quick to bring in professional management, particularly after the passing of the company's founder, and by the third generation, the company has usually passed entirely into the hands of professional managers. The grandchildren's generation might still retain ownership of the enterprise as majority stockholders, but few of them actively manage the company.

In Chinese culture, by contrast, the strong distrust of outsiders usually prevents the institutionalization of the company. Rather than let professional managers take over management of the firm, family owners of

Chinese businesses tend to acquiesce in its fragmentation into new concerns, or in its total disintegration. In this respect, the experience of one of imperial China's early successful entrepreneurs, Sheng Hsuan-huai, is typical. Rather than reinvest profits in his family businesses, sixty percent of his fortune went into a foundation to aid his sons and grandsons and was dissipated within a generation after his death.⁴³ We must, of course, allow for the unpropitious political conditions in Sheng's time, but his would seem to be a case in which the capital behind a potential Chinese Sumitomo empire was dissipated because of Chinese attitudes toward the family.

The difficulty that Chinese businesses have in institutionalizing themselves, as well as the Chinese principle of equal inheritance, explains why firm size in Chinese societies has remained relatively small. It also gives a very different character to the industrial organization of overall economy: companies are constantly being formed, rising, and then going out of business. In the United States, Western Europe, and Japan, many sectors (particularly the more capital-intensive ones) are oligopolistically organized, with a small number of giant firms sharing the market. The opposite is true in Taiwan, Hong Kong, and Singapore, where markets resemble the neoclassical ideal of perfect competition, with hundreds or thousands of tiny firms all fiercely competing to stay in business. If the cartel-like structure of the Japanese economy seems anticompetitive, the kaleidoscopically changing world of Chinese family firms appears, if anything, overly competitive.

A further consequence of the relatively small scale of Chinese firms is the dearth of Chinese brand names.⁴⁴ In the United States and Europe, the rise of branded and packaged goods in the late nineteenth century in sectors like tobacco, food, clothing, and other consumer goods was the product of the forward integration of manufacturers that wanted to control the new mass markets opening up for their products. Brand names can only be established by companies able to exploit economies of scale and scope in marketing. The companies owning them must be relatively large and must stick around long enough for consumers to develop an awareness of the quality and distinctiveness of their products. Names like Kodak, Pitney-Bowes, Courtney's, and Sears all date back to the nineteenth century. Japanese brand names like Sanyo, Panasonic, or Shi-seido have been around a shorter time but were created by very large, well-institutionalized corporations.

In the Chinese business world, by contrast, there are very few brand

names. The only one familiar to most Americans is Wang, which is the exception that proves the rule. Chinese companies in Hong Kong and Taiwan produce textiles that go into American brand names like Spaulding, Lacoste, Adidas, Nike, and Arnold Palmer, but only rarely does a Chinese company establish the brand name itself. The reasons that this is so should be clear from the account of the evolution of Chinese family firms. Because of their reluctance to develop to professional management, they are constrained from integrating forward, particularly into unfamiliar overseas markets, which require the marketing skills of native inhabitants. It is difficult for small Chinese family firms to grow to a scale where they can produce a distinctive mass-market product, and few survive long enough to establish a reputation with consumers. As a result, Chinese firms usually seek Western business partners to do their marketing rather than creating their own marketing organizations like large Japanese companies. This turns out to be a comfortable relationship for the Western company, since there is less likelihood that the Chinese partner will seek to dominate marketing in that particular sector in the manner of a Japanese corporation.⁴⁵ In other cases, like the Bugle Boy line of clothing, the marketing organization has been done by a Chinese-American familiar with American culture.

The tendency of Chinese firms to remain small and family managed is not necessarily a disadvantage and in some markets may even constitute an advantage. They have done best in relatively labor-intensive sectors and in sectors with fast-changing, highly segmented, and therefore small markets such as textiles and apparel, trading, timber and other commodities, PC components and assembly, leather goods, small-scale metalworking, furniture, plastics, toys, paper products, and banking. A small, family-managed firm is highly flexible and can make decisions rapidly. Compared to a large, hierarchical Japanese firm with its cumbersome system of consensual decision making, a small Chinese business is much better equipped to respond to overnight changes in market demand. Where Chinese firms do less well is in sectors that are highly capital intensive, or in which returns to scale are very large due to complex manufacturing processes—sectors like semiconductors, aerospace, autos, petrochemicals, and the like. Private Taiwanese companies cannot even hope to compete with Intel and Motorola in producing the latest generation microprocessor, as the Japanese firms Hitachi and NEC conceivably could.⁴⁶ But they are highly competitive at the commodity end of the

personal computer business, where countless no-name PCs roll off small assembly lines.

There are three routes open to a Chinese society to overcome the inability to create large corporations. The first is through network organizations. That is, Chinese firms can develop the equivalent of scale economies through family or personal ties with other small Chinese firms. There is today throughout the Pacific Rim an enormous series of overlapping and constantly ramifying networks of Chinese firms. Much of the hothouse development going on in the PRC's Fujian and Guangdong provinces is the work of Hong Kong-based family networks spreading through the adjoining regions of China. Families are important to network organizations as well as to individual firms, though perhaps to a somewhat lesser degree. Many networks take advantage of kin ties outside the family, such as the very large lineage (or clan) organizations that exist in southern China. (On the other hand, some network relationships are not based on kinship at all but simply on personal trust and contact.)

The second method of developing large-scale industries is to invite in foreign direct investment. Chinese societies have typically been wary in permitting foreigners to play such an influential role in their economy. In Taiwan and the PRC, the practice has been tightly regulated.

The third way that Chinese societies can achieve economies of scale is through state promotion or ownership of enterprises. An atomistic, highly competitive market of small private businesses is not a new phenomenon; this system in fact characterized Chinese economic life for many centuries, in both the countryside and the cities. Traditional China had, in addition, very sophisticated manufacturing capabilities and a high level of technological sophistication in the early modern period (that is, when compared to Europe at the time), but these all lay within the state sector. For example, the porcelain metropolis of Jingdezhen had hundreds of thousands of inhabitants, and it is said that individual pieces passed through seventy or more pairs of hands in the manufacturing process. Yet porcelain manufacturing there was always a state-owned and-operated business, and there are no records of comparably sized private firms.⁴⁷ Similarly, the government of late Qing China—the last dynastic state—established a number of so-called *kuan-tu shang-pan* enterprises (“officially supervised, privately owned”), including a monopoly of salt production and a number of armaments industries believed necessary for national security purposes. In these cases, the state appointed official supervisors, while the right to

manufacture was sold to private merchants from whom the government extracted taxes.⁴⁸ When the Chinese communists won the civil war in 1949, they immediately set about nationalizing Chinese industry in accordance with their Marxist principles. In good socialist fashion, the PRC today has any number of gigantic (and hugely inefficient) state-run enterprises. But the Nationalists as well inherited several large state-owned businesses from the Japanese and until recently have not been in any hurry to privatize them. If Taiwan hopes to be a major player in sectors like aerospace and semiconductors, state sponsorship (whether in the form of outright ownership or subsidy) would appear to be the only way.

The familism evident in Chinese business life has deep roots in Chinese culture, and it is there that we have to go to understand its unique characteristics.

CHAPTER 9

The "Buddenbrooks" Phenomenon

The Chinese communists came to power in 1949 determined to break the hold of Chinese familism on Chinese society. They believed, incorrectly, that the traditional patrilineal Chinese family was a threat to economic modernization. But they also saw, with greater clarity, that the family was a political competitor, one that weakened the hold that ideology and nation would have over this vast country. As a consequence they undertook a series of measures designed to destroy the traditional family: "modern" family law, outlawing polygamy and guaranteeing the rights of women, was introduced; the peasant household was split asunder through collectivization of agriculture; family businesses were nationalized or otherwise expropriated; and children were indoctrinated to believe that the party, not the family, was the ultimate source of authority. The family planning measures designed to constrain China's explosive population growth by limiting families to a single

child was perhaps the most frontal assault on traditional Confucianism, with the latter's millennia-old imperative to have many sons.¹

But the communists vastly underestimated the staying power of Confucian culture and the Chinese family, the latter of which emerged from the past half-century of political upheaval stronger than ever. A proper understanding of the role of the family in Chinese culture is key to understanding the nature of Chinese economic society, as well as that of other familistic societies around the world today.

Confucianism, to a much greater degree than Buddhism or Taoism, has defined the character of social relations within Chinese society over the last two and a half millennia. It consists of a series of ethical principles that are said to undergird a properly functioning society.² Such a society is regulated not by a constitution and system of laws flowing from it but by the internalization of Confucian ethical principles on the part of each individual as the result of a process of socialization. These ethical principles define the proper nature of a wide variety of social relationships, the central five of which are held to be those of ruler-minister, father-son, husband-wife, elder-younger brother, and friend-friend.

A great deal has been written about what Tu Wei-ming characterizes as "political Confucianism," that is, Confucianism's support for a hierarchical system of social relations, with an emperor at the top and a class of gentlemen-scholars manning an elaborate centralized bureaucracy below him. This political structure was considered to be a "super family" of the Chinese people, and the relationship of the emperor to his people like that of a father toward his children. In this system, meritocratic advancement was possible through a series of imperial examinations for entry into the bureaucracy, but the social ideal to which the examinees aspired was that of a scholar versed in the traditional Confucian texts. The superior man (*chun tzu*) possessed *li*, the ability to behave in accordance with the elaborately articulated rules of propriety,³ and as such was very far from the modern entrepreneur. He sought leisure rather than hard work, derived his income from rents, and saw himself as a guardian of Confucian tradition, not as an innovator. In a traditional, stratified Confucian society, the merchant was not held in high esteem. If a merchant's family grew rich, his sons would hope not to carry on his business but to take the imperial examination and enter the ranks of the bureaucracy. Instead of reinvesting, many merchants diverted the profits from their businesses to landownership, which conferred much higher social prestige.⁴

Many of the negative assessments of the economic impact of Confucianism in the first half of the twentieth century arose in part because the political aspects of the doctrine were taken to be the core of the cultural system as a whole. Political Confucianism, however, has virtually disappeared from the scene. The last Chinese dynasty was overthrown in 1911 and the imperial bureaucracy abolished. Although various generalissimos and commissars have been compared to emperors in later years, the imperial system has been long dead and in little danger of being revived. The social stratification supported by political Confucianism has also largely been dismantled. The old class structure was dissolved by force in the PRC after the revolution and eaten away as the result of successful economic development on Taiwan. In the other overseas Chinese communities, the traditional Chinese political system could not be exported to what were from the start relatively homogeneous ethnic communities of merchants and small businessmen.⁵ Some Chinese societies like Singapore have tried to revive a form of political Confucianism as a means of legitimizing their particular version of "soft authoritarianism," but these efforts have a rather artificial character to them.

In any event, the true essence of Chinese Confucianism was never political Confucianism at all but rather what Tu Wei-ming calls the "Confucian personal ethic." The central core of this ethical teaching was the apotheosis of the family—in Chinese, the *jia*—as the social relationship to which all others were subordinate. Duty to the family trumped all other duties, including obligations to emperor, Heaven, or any other source of temporal or divine authority.

Of the five cardinal Confucian relationships, that between father and son was key, for it established the moral obligation of *xiao*, or filial piety, which is Confucianism's central moral imperative.⁶ Children are encouraged to defer to parental authority in all cultures, but in traditional China this is taken to an extraordinary degree. Sons have the duty to defer, even as adults, to their parents' wishes, to support them economically when they are old, to worship their spirits once they are dead, and to keep alive a family line that can be traced backward through generations of ancestors. In the West, the father's authority has had to compete against a number of rivals, including teachers, employers, the state, and ultimately God.⁷ Rebellion against parental authority has become virtually institutionalized in a country like the United States as a coming-of-age ritual. In traditional China, this would be unthinkable. There is no

counterpart to the Judeo-Christian concept of a divine source of authority or higher law that can sanction an individual's revolt against the dictates of his family. In Chinese society, obedience to paternal authority is akin to a divine act, and there is no concept of individual conscience that can lead an individual to contradict it.

The centrality of the family in traditional Chinese culture becomes evident when there is a conflict between loyalties to one's family and loyalties to higher political authorities such as the emperor or, in the PRC, the commissar. Of course, by the tenets of orthodox Confucianism, such conflicts should never even arise; in a well-ordered society, all social relationships are harmonious. But arise they do, most acutely when one's father has committed a crime and the police come looking for him. Many classical Chinese dramas portray the moral agony of a son forced to choose between loyalty to the state and loyalty to the family but in the end the family wins: you do not turn your father in to the police. In a classical story involving Confucius and the head of a neighboring kingdom, "The king boasted to Confucius that virtue in his land was such that if a father stole, his son would report the crime and the criminal to the state. Confucius replied that in his state virtue was far greater for a son would never think of treating his father so."⁸ The communists rightly saw that the authority of the family was a threat to their own and engaged in an extended struggle to subordinate the family to the state: for them, the virtuous son reported his criminal father to the police. There is good evidence, however, that they failed completely in their attempts to subvert the family. The priority of the family over the state, indeed over any other relationship outside the family, makes orthodox Chinese Confucianism very different from its Japanese offshoot, with important consequences for business organization.

Competition between families makes Chinese societies seem individualistic, but there is no competition between the individual and his or her family in the Western sense. An individual's sense of self is defined by the family to a much greater extent. According to the anthropologist Margery Wolf's study of a Taiwanese village,

A man not thoroughly imbedded in a network of kinship cannot be completely trusted because he cannot be dealt with in the normal way. If he behaves improperly, one cannot discuss his behavior with his brother or seek redress from his parents. If one wants to approach him about a delicate matter, one cannot use his uncle as a go-between to prepare the way.

Wealth cannot make up for this deficiency any more than it can make up for the loss of arms and legs. Money has no past, no future, and no obligations. Relatives do.⁹

The weakness of a sense of duties and obligations to anyone outside the family in traditional China is manifested by the self-sufficiency of the peasant household.¹⁰ Peasants usually tried not to rely on their neighbors for anything, though there might be some collective labor at peak harvest times. In contrast to the European manorial system of the Middle Ages in which peasants were closely tied to the households of their seigneurs and dependent on them for land, credit, seed, and other kinds of services, the Chinese peasant usually owned his own plot and had minimal contact with social superiors except when he was taxed. The household was an independent unit for both production and consumption. There was little division of labor in the countryside; the peasant household produced itself as many of the nonagricultural goods it needed from day to day rather than obtaining them through markets. The cottage industries in the countryside that were encouraged in the PRC and sprang up spontaneously in Taiwan thus have deep roots in Chinese culture.¹¹

The degree of self-sufficiency among gentry families was lower, though it remained as a social ideal. In a well-born family, there was sufficient surplus to support larger households and more women. Members of the family did not work but managed and were dependent on the labor of nonfamily employees. The imperial examination system existed as a route of upward social mobility out of the family. Gentry families often lived in cities, where there were more distractions and opportunities for social relations outside the family. Nevertheless, Chinese aristocratic families remained more self-sufficient than their European counterparts.¹²

If one looks at Chinese familism in historical perspective, it is clear that there was a good deal of economic rationality behind it. In traditional China, there were no established property rights. Through much of Chinese history, taxation was highly arbitrary; the state subcontracted tax collection to local officials or tax farmers, who were free to set the level of taxation at whatever the local population could endure.¹³ Peasants could also be drafted arbitrarily for military duty or to work on public works projects. The state provided few social services in return for its taxes. The sense of paternalistic obligation between lord and peasant that existed in the European manorial system, however inconsistent and hypocritical it often was, did not have a counterpart in China. Traditional

China faced chronic situations of overpopulation and resource (i.e., land) scarcity, and the competition among families was always intense. There was no formal system of social security, an absence that has persisted in most Confucian societies up to the present day.

In this sort of environment, a strong family system can be seen as an essentially defensive mechanism against a hostile and capricious environment. A peasant could trust only members of his own family, because those on the outside—officials, bureaucrats, local authorities, and gentry alike—felt no reciprocal sense of obligation to him and felt no constraints about treating him rapaciously. With most peasant families living perpetually at the edge of starvation, there was little surplus with which one could be generous to friends or neighbors. Sons—as many as one could afford while one's wife was of childbearing age—were an absolute necessity, for without them there was no way one could hope to support oneself in old age.¹⁴ Under such harsh conditions, the self-sufficient family was the only rational source of shelter and cooperation available.

Traditional China failed to develop concentrated wealth that could have capitalized early industries, because of the principle of equal male inheritance, which was deeply ingrained in the culture.¹⁵ The Chinese family system is strictly patrilineal; inheritance flows through males only and is shared equally by all of a father's sons. With increases in population, land was constantly subdivided from one generation to the next, resulting in individual peasant plots that were too small to feed a family adequately. This phenomenon occurred into the twentieth century.¹⁶

Even among rich families, equal division of inheritances meant that fortunes were dissipated in a generation or two. One consequence was that there are very few large noble houses or estates as in Europe—that is, large family dwellings that were built to be occupied by the same aristocratic family over generations. The houses of wealthy families were small, single-story affairs clustered around a common courtyard, which could accommodate the families of the patriarch's sons. In contrast to societies with a system of primogeniture like England and Japan, there was no stream of younger sons who, left out of the family inheritance, would be forced to seek their fortunes in commerce, the arts, or the military. The labor supply was therefore kept in the countryside to a greater extent than in countries with a system of primogeniture.

Sons were important both for inheritance and as a form of social security. But it was extremely difficult to adopt outsiders into the family in the event one had no sons or one's sons died early or were incompetent.¹⁷ Al-

though it was in theory possible in traditional Chinese culture to adopt a son not biologically related into the family (usually by marrying him to one's daughter), this was not a preferred way of proceeding. An adopted son would not feel the same obligations to his new family that a biological son would, and from the father's perspective there was always the danger that the adopted son would take his children and leave the family altogether if, for example, he felt he had not received an adequate share of the inheritance. Because of the danger of disloyalty, infant adoptions were preferred, and the adopter went to elaborate pains to keep the identity of the adoptee's birth family secret. Adoptions were carried out within the kinship group if at all possible.¹⁸ Going to a complete outsider was usually an extraordinary event, one that was commemorated by public humiliation of the sonless adopter.¹⁹ The borderline between family and nonfamily is thus sharply drawn in Chinese culture. Again, as we will see, Japanese practice with regard to adoption could not be more different.

The combination of intense familism, equal male inheritance, lack of a mechanism for adopting outsiders, and distrust of nonkin has led to a pattern of economic behavior in traditional China that anticipated the business culture of contemporary Taiwan and Hong Kong in many respects. In the countryside, there were no large estates but microscopic land holdings that tended to shrink with each generation. There was a constant rising and falling of families: those that were industrious, thrifty, and able would accumulate money and move up the social scale.²⁰ But the family fortune—not only land but the family residence(s) and household items—would be dissipated in the second generation by its equal division among sons. The ability and moral virtue of succeeding generations was never ensured, and so the family would eventually sink back into obscurity and poverty. The anthropologist Hugh Baker noted of Chinese village life: "No family in our village has been able to hold the same amount of land for as long as three or four generations."²¹ Peasant communities experienced the constant rise and fall of different families over time: "What this process of rise and fall in family fortunes meant was a society like a seething cauldron, with families bubbling to the top only to burst and sink back to the bottom. When they burst they shattered their land-holdings too, and the patch-work quilt effect posed by the constant fragmentation and re-agglomeration of land-holdings was a distinctive feature of the Chinese landscape."²² Families could not grow too rich, at least given the technological opportunities of traditional Chinese agriculture; nor could they grow too poor, since below a certain

level of poverty men could not afford to marry and produce offspring.²³ The only opportunity for breaking out of this cycle came if a particularly able son was permitted to take the imperial examination, but that happened rarely and in any event affected only individuals.

Up to this point, I have been using the term *family* as if the Chinese family were identical to its Western counterpart. This is not the case.²⁴ Chinese families have generally been larger than their Western counterparts, both before and after industrialization, so that they could support somewhat larger economic units. The ideal Confucian family is in fact a five-generation household with great-great-grandfathers living near their great-great-grandchildren. Obviously, this kind of extended family was seldom practicable; more common was the so-called joint family in which a father and mother (and possibly the father's brothers' families) lived together with the families of their grown sons.²⁵ Historical research on the Chinese family has shown that even this type of joint family was more of an ideal than a reality. Nuclear families have been much more common in China than many Chinese themselves believe, even among traditional peasants in the countryside.²⁶ The large joint family was in many ways a privilege of the well-to-do: only the wealthy could afford many sons and their wives and could support so many family members in a single household. Among wealthy families, there was a cyclical evolution of families from nuclear to stem to joint and back to nuclear, as children grew up, parents died, and new households established.

It is a mistake to think of the traditional Chinese family as the harmonious and unified whole as it is sometimes perceived to be from the outside. The *jia* was in fact fraught with a number of inherent tensions. It was both patrilineal and patriarchal: the woman marrying into the family was expected to shed her ties to her own family and was strictly subordinate to her mother-in-law (not to mention the males in the family) until she herself became the mother-in-law.²⁷ In traditional China, wealthy men would often take multiple wives and/or concubines to the extent of their ability to support them.²⁸ Women contributed a greater share of work in poor peasant families than in rich ones and therefore had more leverage over the men. The result was the more frequent fission of such families. The strength and stability of the traditional Chinese family came about, therefore, through its ability to control and subordinate women; when that control weakened, families tended to split.

In addition, the equal status of the brothers led to considerable rivalry, and stories about the conflicts and jealousies that arose between the

brothers' wives are legion. Indeed, the traditional living arrangement for well-to-do joint families—with the families of the different brothers either living under the same roof or in separate houses around a common courtyard—was often an explosive recipe, and many such families dissolved into nuclear ones because they could not contain the tension. Hence, while the large five-generation family remained an ideal, there were considerable pressures for disintegration into smaller units.²⁹

Beyond the *jia*, in either its nuclear or joint forms, there were further concentric circles of kinship with great economic significance. The most important of these was the lineage, defined as "a corporate group which celebrates *ritual unity* and is based on *demonstrated descent* from a common ancestor."³⁰ Alternatively, it can be understood as a family of families, all tracing common descent.³¹ Lineages are common primarily in southern Chinese coastal provinces like Guangdong and Fujian, while being much rarer in the north. Chinese lineages, sometimes described as clans, can encompass entire villages, with each family sharing the same surname. Beyond the lineage, there are what are termed "higher-order lineages," in which distinct lineages are bound into a giant clan by ancient ancestry. For example, in Hong Kong's New Territories there are several villages containing lineages with the surname Deng, who all trace their ancestry to a single individual who settled in the area nearly a thousand years earlier.³² Lineages usually possess some common property, such as an ancestral hall that is used for ritual purposes, and some of them maintain highly developed sets of rules and genealogical records dating back over many centuries.³³

Economically, lineages have performed the function of widening the circle of kinship, and therefore the number of people who can be trusted in an economic enterprise. Obligations to members of one's lineage are of a much lower order than toward one's family. The same lineages can encompass very rich families and very poor ones, and the richer members have no particular obligation to help the poorer ones.³⁴ Lineages can often be fictitious: people with the same surname like Chang or Li and coming from the same area will assume that they belong to the same lineage, while their actual degree of kinship may be nonexistent.³⁵ Nonetheless, kinship ties, however attenuated, provide the basis for a degree of trust and obligation not present in the case of complete strangers, and vastly increase the pool of people one can safely bring into a family business.³⁶

Lineage ties are extremely important in understanding the nature of contemporary Chinese economic development. Many of the overseas, or

nanyang, Chinese in the thriving communities of the Pacific Rim—Singapore, Malaysia, Indonesia, Hong Kong, Taiwan—originated from the two southern Chinese provinces of Fujian and Guangdong. Although the emigration occurred in many instances three or four generations ago, the overseas Chinese have retained ties to kin in China. Much of the economic development that has taken place in Fujian and Guangdong in the past decade consists of expatriate Chinese capital ramifying backward into its hinterland along family- and lineage-based networks. This is particularly true of Hong Kong and its New Territories, which is physically contiguous with Guangdong and whose lineage organizations overlap to some extent. In many instances, overseas Chinese entrepreneurs have been welcomed back to their home villages or regions by local authorities who have given them particularly favorable treatment because of their kinship ties—actual or sometimes merely presumed. The existence of these kinship ties has given the overseas Chinese the confidence to invest in the PRC, even in the absence of property rights or a stable political environment. It also explains why the overseas Chinese have a leg up on other foreign investors—Japanese, American, or European.

The priority of family and, to a lesser extent, lineage ties in Chinese culture give an entirely different meaning to nationalism and citizenship. Many observers over the years have remarked that, in contrast to neighbors of China like Vietnam or Japan, the Chinese sense of national identity is weaker, as are citizenship and public spiritedness. The Chinese do, of course, have a highly developed sense of national identity supported by their old and rich common culture. As we have seen, national identity was undergirded by political Confucianism in traditional China, which laid down a series of obligations to a hierarchy of political authorities, culminating in the emperor. A negative, antiforeigner sense of national identity was forged in the late nineteenth and early twentieth centuries by China's occupation, first by European colonial powers and then by Japan. In the twentieth century, the Chinese Communist party tried to put itself in place of the emperor and acquired an aura of nationalist legitimacy by virtue of its role in the struggle against the Japanese.

But from dynastic times up through the communist victory in 1949, the primary loyalties of individual Chinese have been not to whatever political authorities were in power but to their families. The concept of "China" never had the same sort of emotional significance as a community of shared value, interest, and experience that "Japan" did for the Japanese. In Chinese Confucianism, there is no such thing as a universal

moral obligation to all human beings as there is in the Christian religion.³⁷ Obligations are graded and fall off in intensity the further one moves from the inner family circle.³⁸ In Barrington Moore's words, "The Chinese village, the basic cell of rural society in China as elsewhere, evidently lacked cohesiveness in comparison with those of India, Japan, and even many parts of Europe. There were far fewer occasions on which numerous members of the village cooperated in a common task in a way that creates the habits and sentiments of solidarity. It was closer to a residential agglomeration of a number of peasant households than to a live and functioning community."³⁹ Chinese societies have been able to enforce citizenship through authoritarian power in places like the PRC, Singapore, and Taiwan, just as these same governments have been able to subsidize the growth of large companies. But as many Chinese have noted about themselves, they suffer from a low degree of "spontaneous" citizenship, measured by such things as the proclivity of people to abuse common areas, their willingness to contribute to charity, keep public spaces clean, volunteer for public interest-oriented groups, or die for their country.⁴⁰

And yet the usual forces of socioeconomic change have altered traditional Chinese families and lineages in both the PRC and among the overseas Chinese.⁴¹ Urbanization and geographic mobility weaken lineage organizations, because the latter's members can no longer live in the same village as their ancestors. Large joint or even extended families are harder to maintain in an urban environment and are gradually being replaced by conjugal ones.⁴² Women are increasingly educated and, as a consequence, less willing to accept subservient positions in traditional households.⁴³ Both peasant household agriculture and rural industrialization may be reaching the limits of possible productivity gains. Further economic progress will require the peasant population of China either to urbanize further or create some new form of economic organization in the countryside, thereby disrupting the self-sufficiency of the peasant household. Many of these changes have already taken place in noncommunist Chinese societies like Taiwan and Hong Kong.

Nonetheless, it is very premature to talk about the death, or even the eroding, of the *jia*. Growing evidence indicates that changes in family patterns have been less dramatic in China than was once thought.⁴⁴ In modern, urban environments family relationships have actually reconstituted themselves. In its contest with the traditional family, communism has clearly lost. The Australian Sinologist W. J. F. Jenner has remarked

that out of the wreckage of twentieth-century Chinese history, the one institution that has emerged stronger than all the others is the patrilineal Chinese family.⁴⁵ The latter has always been a refuge against the capriciousness of political life, and Chinese peasants have understood that in the end, the only people they could really trust were members of their immediate family. The political history of this century has reinforced that feeling: two revolutions, warlordism, foreign occupation, collectivization, the insanity of the Cultural Revolution, and then decollectivization after the death of Mao have all taught the Chinese peasant that nothing is certain in the political environment. Those in power today may be the underdogs of tomorrow. By contrast, the family provides at least a modicum of certainty: in providing for one's old age, it is far better to put one's faith in one's sons than in the law or changeable political authorities.

Monumental changes have taken place in China since Deng Xiaoping's reforms of the late 1970s and the marketization of a large part of the Chinese economy since then. But the reform was, in another sense, simply the restoration of older Chinese social relationships. It turned out that the self-sufficient peasant household had not been destroyed by communism, and it came roaring back when given a chance by the rural responsibility system. The anthropologist Victor Nee admitted, somewhat poignantly, that he had wanted to find that social bonds created by the communist commune system had survived and were even strengthened by two decades of collective farming. What he (and many others) found instead was only the individualism of the peasant household.⁴⁶ Jenner points out that many Chinese Communist party officials, despite their Marxist ideology, have spent the past decade establishing foreign bank accounts and educating their children in the West, in preparation for the day that they may be out of power. For them no less than for the most humble peasant, the family will remain the only safe refuge.⁴⁷

In the previous chapter I noted the small scale of Chinese businesses and the fact that they tend to be owned and operated by families. The reasons for the persistence of small scale cannot be traced to either the level of development of contemporary Chinese societies or their lack of modern legal or financial institutions. Other societies at lower levels of development and with weaker institutions have nonetheless been able to move beyond the family as the dominant form of business organization.

On the other hand, it seems quite likely that the modern Chinese business structure has its roots in the singular position of the family in Chinese culture. The pattern of economic life was the same in traditional

as in modern China. The constant rise and fall of atomistic, family-operated enterprises; the failure of these enterprises to institutionalize themselves or survive beyond two or three generations; the pervasive distrust of strangers and reluctance to bring nonkin into the family; and the social obstacles to the accumulation of large fortunes due to inheritance customs all existed in Chinese society well before the postwar industrialization of Taiwan, Hong Kong, Singapore, and the PRC.