

From Cotton Mill to Business Enterprise: The Emergence of Regional Enterprises in Modern China. By *Elizabeth Köll*. Cambridge: Harvard University Press, 2004. xvi + 242 pp. Index, notes, bibliography, maps, figures, photographs, tables. Cloth, \$49.50. ISBN: 0-674-01394-8.

Reviewed by Madeleine Zelin

From Cotton Mill to Business Enterprise examines the evolution of one of the earliest privately owned mechanized manufacturing conglomerate in China: the Dasheng group of companies, founded in 1895 by one of China's most prominent early industrialists, Zhang Jian. Dasheng's main assets consisted of spinning mills, as well as land-reclamation companies established to ensure the mills of a secure source of cotton. Affiliated and subsidiary businesses included flour and oil mills, shipping lines, a publishing house, and a distillery. Each represented a backward or forward linkage that furthered the cotton mill's core business. As a business organization, Dasheng went through four organizational transformations: founded in 1895 as a state-invested, merchant-managed enterprise, by 1907 it had become a highly successful, private, limited-liability company. The firm went into receivership, grew into a consortium of its creditor banks in the late 1920s, and finally emerged as a state-run enterprise in the 1950s. Köll's focus is largely on the limited-liability company: its investment and management structure, labor and shop-floor control, accounting practices, and business milieu. Company records, even for Chinese firms that survived as state-run enterprises, are often scattered, lost, or not open to public scrutiny. Köll has done an extraordinary job of mining local archives, museums, and libraries to bring us this study. More impressive still is her ability to decode the often deliberately vague and obscure records of the firm in order to uncover the sources of its success and eventual decline.

Köll insists that Dasheng was not a typical Chinese firm. Its reliance on hierarchical coordination, both within its constituent firms and among the firms that formed the Dasheng group, was a departure from the model of the Chinese family firm. At the same time, Zhang Jian's mobilization of family, native place, and official ties in the running of the firm alert us to the continuing importance of networks in Dasheng's

business operations. I would argue that Dasheng was less of an anomaly than Köll maintains. New work on firms as diverse as the Yongli Chemicals Company, the China Egg Produce Company, Standard Oil, and the British American Tobacco Company demonstrate that mixed strategies were employed by Chinese and foreign companies in China during the interwar years. More interesting are the insights Köll's research provides into a wide range of business practices carried out within the larger framework of network and hierarchy. Given the limits of space, I will mention only two interrelated issues: raising capital and accountability.

Although Dasheng received state support in the form of equipment, Zhang Jian had to raise 250,000 taels (ounces of silver) in private-equity capital to open the first Dasheng mill. By 1902 total investment had reached 330,000 taels. Thus, unlike many late Qing-dynasty (1644–1912) firms, whose failures have been attributed to insufficient capitalization, Dasheng exceeded its investment goals. Most interesting is the distribution of shares, many of which were held in small numbers by local cloth merchants. Clearly, Zhang Jian's prestige as a local literatus helped him to raise share capital, although his own ties to the cotton business were few. So did the stipulation that shares would pay annual dividends of 8 percent, a standard practice in China at the time. But equally important were the prospects for profits in a business whose potential for expansion these investors knew at first hand.

The Dasheng case gives the lie to the assumption made by many who write about the Chinese economy that Chinese merchants shied away from investment in modern businesses, preferring safer investments in land and usury. The buying and selling of shares had a long history in China. Moreover, the pooling of capital under company or kinship trusts (*ji* and *tang*) meant that here, as elsewhere in China, shares could be purchased by entities that were themselves constructed of shares. Köll views the use of *ji* and *tang* names in the purchase of shares as a means to hide true ownership, particularly of shares controlled by Zhang Jian himself. This may be true. However, more important is the fact that in China property rights resided in the household, not the individual. The prevalence of *tang* and *ji* as shareholders in Dasheng is evidence of the importance of joint property in business investment and the construction, even within kinship circles, of multiple shareholding entities as a means to preserve and pool wealth.

What remains to be explained is the behavior of Dasheng shareholders. Dasheng's large, locally generated equity stake was established before the introduction of a Chinese law of limited liability. However, Köll notes that incorporation in 1907 seems to have changed neither the ability of the firm to raise equity capital nor the firm's basic management structure. Zhang Jian's singular power within Dasheng as general manager is presented as a fact, leaving many unexplained mysteries. Passivity was not typical of Chinese shareholders in other industries. Indeed, Zhang Jian himself had been active in revolts by shareholders in the Jiangsu railway and the Bank of China (see Georgia Mickey, Ph.D. dissertation, Columbia University, 2004). One can only assume that shareholders did not have the skill and resources that Köll brings to deciphering the Dasheng group's opaque accounts.

At the close of this important book, Köll draws an analogy between contemporary Township and Village Enterprises (TVEs) in China and the Dasheng group. Köll attributes the founding and early success of the Dasheng cotton mills to Zhang's ability both to transform himself from traditional scholar-official to businessman and to move the Dasheng No. 1 Cotton Mill from an "official supervised-merchant managed" (*guandu shangban*) operation to a privately owned, limited-liability company following the promulgation of China's first company law in 1904. The similarity to TVEs founded in the late 1970s and 1980s, when rural townships and villages were allowed to assert collective "ownership" over former commune and brigade enterprises, is provocative. We may easily replace the scholar-official entrepreneur with the local party secretaries and the state contribution of 50 percent of the initial capital in Dasheng with the divestment of commune and brigade factories. However, it is not in the conversion of state assets into private assets, but rather in the realm of accountability and control that Köll sees the links between Chinese "regional" enterprises present and past. Village or township party secretaries share with Zhang Jian a level of control over groups of rural enterprises based not on their own equity stake or any transparent selection process but, rather, on the mobilization of personal prestige and the exercise of centralized accounting. Both drew on multiple sources of social capital—official or party position, familial and local networks, and the ability to distribute enterprise resources for public benefit as a form of personal largesse. Centralization of the accounting function for all

firms in the business groups they controlled permitted the mingling of public and private resources as well as interfirm borrowing and cross-investment, both powerful tools in the expansion of business under conditions of weak capital markets. And it was an underdeveloped state-regulatory apparatus and poor internal auditing practices that gave entrepreneurs like Zhang and his contemporary counterparts the ability to run their companies with little interference from financial stakeholders.

In the end, Köll argues, nonperforming loans to subsidiaries and affiliates, lack of accountability to shareholders, and failure to use modern methods of cost accounting in business planning doomed the Dasheng group. If the managers of China's TVEs are permitted to function as Zhang Jians, they may repeat the experience of the Dasheng cotton mills and see the short-term gains they have so clearly made easily slip away.

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